VICTORIA’S FUTURE STATE:
WHY DECENTRALISATION SHOULD BE OUR PRIORITY.

Paper prepared for the Balance Victoria online initiative.

By the HON STEVE BRACKS AC AND THE HON PATRICK MCNAMARA
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Melbourne needs to break from the Post-Second-World-War legacy that has shaped the city for over 60 years. The drivers of Melbourne’s development over that time have been agriculture, resources and manufacturing—sectors all supported by traditional garden city town planning. The drivers of the next wave of prosperity are in the service-based economy and therefore we need to plan for cities that can act as a foundation for the services sector and for the export of our services into our international region.

Infrastructure Australia, in its ‘Future Cities’ report of February 2018, scenario planned three options for a Melbourne mega-city.

One is London, with medium-density housing spreading a growing population more evenly through existing suburbs. Two is Los Angeles where low-density development sees suburbia continue to sprawl ever outwards. Three is New York which sees high density, high-rise apartment living take prevalence.

The fourth option is the one not yet articulated fully. It is the regional growth model, where, via a planned and long-term (30 plus year) decentralisation program Victoria grows its existing regional cities and develops new ones in order to divert future growth out of Melbourne and across our state.

On the basis of official projections of Australia’s population growth, our governments could be calling tenders for the design of a brand new city for two million people every five years; or a brand new city the size of Sydney or Melbourne every decade; or a brand new city the size of Newcastle or Canberra every year. Every year. But that’s not what they are doing.” Dr Ken Henry, CEDA, February 2017.

1. Introduction. Australia has only last week recorded a population of 25 million people. This is in August 2018, not 2042 as was first projected by the Federal government back in its 2002 Intergenerational Report.

Victoria’s population growth is the strongest in the nation. Our annual population growth in 2016 was 17 times higher than at its low point in 1993. Our growth is not only high but its pace is increasing. At our current rate of growth, Melbourne is set to reach a population of somewhere between 8 and 11 million people by 2050 (up from our current 4.7 million population).

Across the globe, the trends of growing population and urbanisation are shaping communities, economies and nations. Over this century 85 per cent of the global population will live in cities.

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One is London, with medium-density housing spreading a growing population more evenly through existing suburbs. Two is Los Angeles where low-density development sees suburbia continue to sprawl ever outwards. Three is New York which sees high density, high-rise apartment living take prevalence.

The fourth option is the one not yet articulated fully. It is the regional growth model, where, via a planned and long-term (30 plus year) decentralisation program Victoria grows its existing regional cities and develops new ones in order to divert future growth out of Melbourne and across our state.

If Australia is to grow at these breakneck speeds, we need to be world’s best practice in raising taxes, delivering infrastructure, absorbing and integrating migrants, and city planning.”

Bernard Salt, The Weekend Australian, August 4-5, 2018

OVER THIS CENTURY 85 PER CENT OF THE GLOBAL POPULATION WILL LIVE IN CITIES.

Australia is not immune to this trend, in fact the epicentre is our region. By 2025 another one billion people will enter the global middle class. 90 per cent of that cohort reside in our region. The purchasing power of this group will increase from $12 trillion today to over $26 trillion over the same period. This new affluence will bring a desire for more than Australia’s resources or access to our Universities— it will continue to drive immigration in record numbers.

An opportunity is presented by this next wave of globalisation. One that encourages us to rethink the makeup of our cities and our regional centres and to find ways to spread prosperity with greater spatial equity.

1 ‘Shaping a nation: Population growth and immigration over time’, The Treasury, Dept. of Homeland Affairs, 2018
3 ‘Global economy and development working paper 100’, the Brookings Institution, February 2017
Such a program needs to be based on the best connectivity available. After all it is poor connections with the growing Melbourne jobs market that has been a primary inhibitor of past attempts at decentralisation.

The innovation of fast rail can induce a transformation of the settlement pattern around the city of Melbourne and regional Victoria.

Our view is that we can provide great agglomeration benefits to both Melbourne and the regions. That fast rail connectivity can assist in total factor productivity growth and that its development, in conjunction with newly designed communities in the regions, can contribute to a range of wider economic, financial, employment, and innovation and health benefits.

However, a fast-rail-based decentralisation program raises some serious questions. The first of which is, “where do we begin?”

We believe that four key pillars must be in place for a meaningful decentralisation program to be enacted in Victoria:

1. There must be targets set.
2. We must be willing to look at all areas of the state, not just the existing centres.
3. The integration of transport and land use planning must be at the centre of our decision making.
4. The private sector needs to take up a role and support government investment.

2. Challenges of the current arrangements.

Australia’s national settlement pattern is characterised by a highly urbanised population concentrated in just a few large coastal cities. Some 40 percent of Australia’s population dwells in just two cities, Sydney and Melbourne.

Australia’s settlement pattern is uncommon amongst our OECD counterparts in that our two largest cities account for such a large share of our population. In Canada the two largest cities of Montreal and Toronto hold around 28 per cent of that nation’s population. In Japan, its two largest centres, Tokyo and Yokohama holds less than 10 per cent of the nation’s population and in the UK its two largest cities, London and Birmingham account for less than 20 per cent of the nation’s population.

The shape of our cities is set to become an ever-increasing source of problems as they continue to grow in size. Whilst our highly urbanised settlement has the five largest Australian cities covering just 0.6 per cent of the Australian continental landmass, the two largest cities are built on sprawl. Melbourne’s footprint, for example, is six times the size of London’s despite the fact we have half of London’s population.

The five major cities are in turn highly centrally structured around their urban cores where the highest intensity of public infrastructure is located and around which the private sector activity has concentrated. Labour markets have focused high value jobs in city cores, accompanied by similarly concentrated housing markets, leading to highly competitive land markets and declining housing affordability. Affordable housing for low income workers is principally delivered on the urban fringe, leading to consumption of high-value agricultural land and reliance on car travel for long work journeys.

Melbourne exemplifies these urban limits. According to Victoria In Future (VIF) projections from the Victorian government, between 2015 and 2051 Melbourne is projected to grow by 3.4 million people, from a population of 4.5 million to almost 8 million. Victoria’s total population will reach 10.1 million by this date. The projected growth in Victoria alone will require another 1.6 million dwellings and 1.5 million jobs.

This growth should boost the economy, but only if infrastructure can be planned and delivered in such a way as to facilitate mobility, proximity and opportunity to engage in the economy.

The most critical challenge is to provide proximity between jobs, services and housing. It is only by providing such proximity that the economy – and all Australians - can benefit from our current growth boom.

4 ‘Shaping a nation: Population growth and immigration over time’, The Treasury, Dept. of Homeland Affairs, 2018
5 Department of Environment, Land, Water and Planning, internal analysis, estimated employed persons derived from Victorian Government 2016
However, current models of infrastructure provision are insufficient to meet future needs and radical new approaches require exploration. The post-war suburban housing model that so successfully catered for the housing needs of Australian cities in the post-war era is now running out of land that is proximally located to jobs and services. Peripheral new suburbs are so distant that they are preventing households from engaging in a productive economy since they are encountering increasing congestion on clogged road networks. Continued suburban extension also exposes households to further social and energy vulnerabilities.6

Current settlement planning continues two historical development models: 1) continued expansion of cities at the fringe based on single-storey detached dwelling and dispersed residential lot, served principally by cars; and 2) inner urban intensification, lately comprised of high-rise tower construction in central business districts, organised around conventional rail modes.

Although metropolitan planning strategies have sought to pursue a further model of middle-suburban medium-density and medium-rise infill based on rail nodes, this faces opposition from local residents and councils and reticence from developers in terms of the economics of this zone for development. The current model of Melbourne's development are producing increasing costs spurred by rapid population growth with Infrastructure Victoria reporting that by 2030 congestion will cost every Melbourne resident an extra $1,700 per year or $7 each working day.7

By 2050, Melbourne's transport network will need to handle an extra 10.4 million trips per day.8 This challenge is made all the more daunting by the pattern of new settlement and jobs around Melbourne. Yet, the scope to develop and expand infrastructure within and close to the existing urban area is severely constrained by high land values and existing uses.

A third option is needed, based on new technologies and new spatial settlements including more of the state. This decentralisation model would link new compact, sustainably designed regional settlements beyond the metropolitan fringe to high productivity CBD and mid-suburban locations via fast rail. This model goes beyond the use of existing regional settlements in peri-urban areas adjacent to Melbourne to accommodate metropolitan population growth. It provides a new regime for settlement that is proving successful in other parts of the world contending with similar population and urbanisation pressures as Victoria.

3. Decentralisation will require targets to be successful. Plan Melbourne forecasts that Victoria will grow to 10.1m people by 2051. Of this population growth, some 3.4m people will be added to the current Melbourne metropolitan area and only 700,000 will be added to Victoria’s regions.9

A serious and long-term commitment to decentralisation is needed.

Any decentralisation program must state its objective in terms of rebalancing current population trends. i.e. ‘we need to have X % of the future 3.4m people who will live in Melbourne at 2050 placed in towns and cities in regional Victoria’. Only then can a suite of policies and investments be implemented to deliver the outcome.

Our view is that a policy should aim to have 1 million to 1.7 million, or roughly up to half of the 3.4 million people projected to come to Melbourne, to be settled in regional Victoria by 2050. This range is chosen for a number of reasons:

1. New and/or expanded settlements in the regions will need to reach a critical mass of population in a short period of time in order to provide their own jobs market. To generate agglomeration

6 ‘Oil vulnerability in the Australian city: Assessing socioeconomic risks from higher urban fuel prices’, Dodson & Sipe, 2007
7 Infrastructure Victoria, 2016
8 Victorian Integrated Survey of Travel and Activity 2016 and Victoria in Future 2016 population projections
9 Plan Melbourne 2017-2050 Strategy
benefits for themselves and surrounding areas the new cities will need to reach 50,000 people within a decade and over 200,000 people each within 25-35 years.

2. The reduction in congestion in Melbourne required to save the city from economic decline (GRP per person) needs to be real and substantial – cutting the city’s population growth in half (by syphoning future settlers into the regions instead of the metro area) would achieve this and provide time governments need to get infrastructure and urban planning aligned and right for the 50 years beyond 2050.

3. Housing affordability is best addressed via a systematic, long-term program of increasing housing supply. Supply however, must be in locations that have access to the jobs market of Melbourne and other major centres. This requires hyper connectivity via mass transit to allow access efficiently (i.e. without the cost of congestion). It is simpler to provide housing stock in compact settlements in the regions supported by rapid mass transit to the Melbourne jobs market than to continually increase the population in the outer fringes of the Melbourne metro area and commit to very expensive infrastructure improvements aimed at providing that growing population incremental connectivity improvements.

4. The new investment in rail (billions of dollars) needs to be viable and the upgraded rail services need strong ticket sales to pay for the service operations and offset construction costs. We can’t expand the state’s rail infrastructure only to have it making a loss each year (V-Line currently costs government hundreds of millions of dollars a year to operate).

4. Are we currently decentralising?

Intra-state migration trends 2011-2016
An analysis of data from Australian Bureau of Statistics, Census of Population and Housing, 2016 (Usual Residence Data), compiled and presented in profile.id has been undertaken in order to determine the net migration of population between Victorian Local Government Areas (LGAs).

The net migration figures account for the difference (in positive or negative terms) in the number of people that migrated between any two LGAs in the state. For example over the period 2011-2016, Melton LGA received from Brimbank LGA a total of 9,812 persons but it also sent to Brimbank LGA a total of 2,777 persons. The net migration therefore between the two LGAs is +7,035 to Melton from Brimbank. The inverse of this is also demonstrated in other LGA migration relationships.
Both Bendigo and Ballarat drew their largest positive net migration from their nearest neighbours.

For Ballarat, neighbouring LGA Moorabool contributed the most residents at 452. The second largest contributor is also a neighbouring LGA, Hepburn, which contributed 350 people. Combined, the neighbouring LGAs of Ballarat being Moorabool, Hepburn, Central Goldfields, Pyrenees and Golden Plains contributed 1,523 new residents to Ballarat or 27% of Ballarat’s positive net migration total. Adding LGAs close by, but not sharing a boundary with the City of Ballarat, such as Ararat, Northern Grampians and Horsham and the total neighbouring and close by LGA contribution to Ballarat’s total net positive migration is 40%.

For Bendigo, neighbouring LGA Mount Alexander contributed the most residents at 416. The second largest contributor is also a neighbouring LGA, Campaspe which contributed 406 people. Combined, the neighbouring LGAs of Bendigo being Mount Alexander, Loddon, Campaspe and Mitchell contributed 1,173 new residents to Bendigo or 23% of Bendigo’s positive net migration total.

The main insight available from the positive net migration figures is that the volume of net new residents to both Bendigo and Ballarat from the Melbourne metro area is modest. Bendigo drew 938 people for the period at an average of 188 per year. Ballarat drew from the Melbourne metro area a positive net migration total of 1,000 people for the period at an average of 200 per year.

In the context of decentralisation policy, the current trend of population from Melbourne metro to Bendigo and Ballarat is negligible. The combined 388 (net) people migrating to these two centres from Melbourne metro each year is statically insignificant in the context of the 120,000+ people Melbourne is adding yearly.

Geelong offers a different set of observations.

Geelong’s positive net migration was not dissimilar to that of Bendigo and Ballarat in that the city drew its largest numbers from its neighbouring LGAs. Wyndham (840) and Surf Coast (473) were the two largest contributors to Geelong’s positive net migration total. Melbourne metro area contributed 4,504 new net residents to Geelong at an average of 900 per year.

From its net negative population figures, the substantial lead that neighbouring Golden Plains has over the next listed LGA is noteworthy. Golden Plains drew a net 967 residents from Geelong over the period, the next closest was Melbourne at 228. This could earmark a trend already afoot in Geelong whereby residents are moving to the near west in order to access more space, cheaper housing and a tree-change lifestyle as Geelong becomes more urbanised. Melbourne metro drew only 11% of the negative net migration pool from Geelong, demonstrating that residents of Geelong who are inclined to leave are not attracted to the metro area, but rather other regional or interstate settings (such as QLD which listed heavily in the negative net migration league table for Geelong).

Beyond the ‘big three’ regional centres, a second analysis of whole-of state LGAs was undertaken to calculate the net migration of population away from Melbourne metro areas to regional LGAs. These movements of new population are referred to as ‘tree-change’ or ‘sea change’ movements, where people(s) depart the city for a change of lifestyle, work opportunities and affordable housing.

The analysis involved tracking the negative net migration and positive net migration for each Melbourne metro LGA and each regional LGA. The process allowed the demonstration of each
Melbourne metro LGAs’ migration of people to the regions and receipt of people from regional Victoria. For the purposes of this calculation the LGA of Albury was included in the Victorian regional LGA listing despite being a NSW LGA.

The summary of the findings for the 2011-2016 census period is shown in Table 1 below.

Of all the Melbourne metro LGAs, only four received a net positive migration flow from regional Victoria – Boroondara, Stonington, Whittlesea and Yarra. The volume of these net positive migrants to the LGAs was very modest at a combined 1,085 persons over the five year period.

Of the regional Victoria LGAs, the largest recipients of population from Melbourne metro LGAs are listed in Table 2.

The whole-of-state figures show that overall, all Melbourne metro LGAs contributed a net population movement of 31,172 persons to regional areas over the 2011-2016 period at an average per year of 4,938.

To place this into perspective; whereas these numbers indicate a positive incidence, they do not signify a meaningful decentralisation trend. Whilst the Melbourne metro area sent 31,172 residents into the regions over the five year period, Melbourne, spurred by the arrival of overseas migrants, grew by 820,000 (from 3.85 million in 2011 to 4.67 million in 2016).

Further, to decentralise one million future residents of Melbourne metro over the next 32 years (to 2050), the net migration to the regions from Melbourne metro will need to be in the order of 31,250 persons each year. This is a multiple of just over six-times the number who moved to the regions from Melbourne over the 2011-2016 period.

There is much work required for such a result to be achieved.

### Table 1. Migration between Melbourne metro LGA and regional LGAs 2011-2016.

<table>
<thead>
<tr>
<th>Metro LGA</th>
<th>Net Regional Vic to LGA (%)</th>
<th>Net LGA to Regional Vic (%)</th>
<th>Adjusted net movements</th>
<th>Ave. Yearly movements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banyule (C)</td>
<td>77</td>
<td>-1,076</td>
<td>-959</td>
<td>-200</td>
</tr>
<tr>
<td>Bayside (C)</td>
<td>44</td>
<td>-503</td>
<td>-457</td>
<td>-92</td>
</tr>
<tr>
<td>Boroondara (C)</td>
<td>814</td>
<td>-454</td>
<td>-360</td>
<td>-72</td>
</tr>
<tr>
<td>Brimbank (C)</td>
<td>37</td>
<td>-1,301</td>
<td>-1,264</td>
<td>-253</td>
</tr>
<tr>
<td>Cardinia (S)</td>
<td>53</td>
<td>-1,819</td>
<td>-1,766</td>
<td>-353</td>
</tr>
<tr>
<td>Casey (C)</td>
<td>179</td>
<td>-2,537</td>
<td>-2,358</td>
<td>-472</td>
</tr>
<tr>
<td>Darebin (C)</td>
<td>477</td>
<td>-594</td>
<td>-517</td>
<td>-23</td>
</tr>
<tr>
<td>Frankston (C)</td>
<td>23</td>
<td>-1,239</td>
<td>-1,216</td>
<td>-243</td>
</tr>
<tr>
<td>Glen Eira (C)</td>
<td>141</td>
<td>-491</td>
<td>-550</td>
<td>-70</td>
</tr>
<tr>
<td>Greater Dandenong (C)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hobsons Bay (C)</td>
<td>45</td>
<td>-1,182</td>
<td>-1,137</td>
<td>-227</td>
</tr>
<tr>
<td>Hume (C)</td>
<td>219</td>
<td>-1,923</td>
<td>-1,706</td>
<td>-341</td>
</tr>
<tr>
<td>Kingston (C)</td>
<td>33</td>
<td>-860</td>
<td>-827</td>
<td>-165</td>
</tr>
<tr>
<td>Knox (C)</td>
<td>21</td>
<td>-1,555</td>
<td>-1,534</td>
<td>-307</td>
</tr>
<tr>
<td>Manningham (C)</td>
<td>86</td>
<td>-670</td>
<td>-584</td>
<td>-117</td>
</tr>
<tr>
<td>Maribyrnong (C)</td>
<td>392</td>
<td>-487</td>
<td>-95</td>
<td>-19</td>
</tr>
<tr>
<td>Maroondah (C)</td>
<td>21</td>
<td>-1,116</td>
<td>-1,095</td>
<td>-219</td>
</tr>
<tr>
<td>Melbourne (C)</td>
<td>218</td>
<td>-1,812</td>
<td>-1,626</td>
<td>-325</td>
</tr>
<tr>
<td>Monash (C)</td>
<td>334</td>
<td>-475</td>
<td>-141</td>
<td>-28</td>
</tr>
<tr>
<td>Moonee Valley (C)</td>
<td>227</td>
<td>-765</td>
<td>-538</td>
<td>-108</td>
</tr>
<tr>
<td>Moreland (C)</td>
<td>359</td>
<td>-667</td>
<td>-308</td>
<td>-62</td>
</tr>
<tr>
<td>Mornington Peninsula (S)</td>
<td>81</td>
<td>-1,112</td>
<td>-1,031</td>
<td>-206</td>
</tr>
<tr>
<td>Nillumbik (S)</td>
<td>5</td>
<td>-879</td>
<td>-874</td>
<td>-175</td>
</tr>
<tr>
<td>Port Phillip (C)</td>
<td>416</td>
<td>-444</td>
<td>-28</td>
<td>-6</td>
</tr>
<tr>
<td>Stonington (C)</td>
<td>600</td>
<td>-181</td>
<td>419</td>
<td>-84</td>
</tr>
<tr>
<td>Whitehorse (C)</td>
<td>397</td>
<td>-677</td>
<td>-280</td>
<td>-56</td>
</tr>
<tr>
<td>Whittlesea (C)</td>
<td>497</td>
<td>-329</td>
<td>138</td>
<td>-29</td>
</tr>
<tr>
<td>Wyndham (C)</td>
<td>276</td>
<td>-3428</td>
<td>-3,152</td>
<td>-630</td>
</tr>
<tr>
<td>Yarra (C)</td>
<td>436</td>
<td>-298</td>
<td>138</td>
<td>-29</td>
</tr>
<tr>
<td>Yarra Ranges (S)</td>
<td>8</td>
<td>-2,296</td>
<td>-2,288</td>
<td>-458</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,484</td>
<td>-31,172</td>
<td>-24,688</td>
<td>-4,938</td>
</tr>
</tbody>
</table>

### Table 2. Top ten regional LGAs for share of positive net migration from Melbourne metro LGAs 2011-2016.

<table>
<thead>
<tr>
<th>Regional LGA</th>
<th>Net population from metro LGAs</th>
<th>Ave. Yearly movements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater Geelong</td>
<td>-4,226</td>
<td>-845</td>
</tr>
<tr>
<td>Bass Coast</td>
<td>-1,775</td>
<td>-355</td>
</tr>
<tr>
<td>Surf Coast</td>
<td>-1,599</td>
<td>-320</td>
</tr>
<tr>
<td>Ballarat</td>
<td>-1,076</td>
<td>-215</td>
</tr>
<tr>
<td>Greater Bendigo</td>
<td>-1,050</td>
<td>-210</td>
</tr>
<tr>
<td>East Gippsland</td>
<td>-1,037</td>
<td>-207</td>
</tr>
</tbody>
</table>

Future population projections. According to Victoria in Future (VIF) projections by the Department of Environment, Land, Water and Planning, Melbourne’s fringe areas will account for the most number of new people (ERP) and dwellings (SPD) for the 2016-2031 period.

Melbourne’s inner-middle suburbs will account for the next largest cohort, with the CBD the largest of this grouping, accounting
for 20% of all inner-middle suburb growth.

Table 3. Melbourne fringe areas breakdown by Estimated Resident Population and Structural Private Dwellings growth 2016 to 2031.

<table>
<thead>
<tr>
<th>LGA</th>
<th>ERP growth 2016-2031</th>
<th>SPD growth 2016-2031</th>
<th>Share of group total SPD growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brimbank</td>
<td>26,115</td>
<td>13,345</td>
<td>3.9%</td>
</tr>
<tr>
<td>Cardinia</td>
<td>66,217</td>
<td>26,583</td>
<td>7.7%</td>
</tr>
<tr>
<td>Casey</td>
<td>135,380</td>
<td>55,594</td>
<td>16.2%</td>
</tr>
<tr>
<td>Frankston</td>
<td>18,089</td>
<td>9,528</td>
<td>2.8%</td>
</tr>
<tr>
<td>Hume</td>
<td>93,688</td>
<td>38,013</td>
<td>11.1%</td>
</tr>
<tr>
<td>Maroondah</td>
<td>18,339</td>
<td>9,369</td>
<td>2.7%</td>
</tr>
<tr>
<td>Melton</td>
<td>127,826</td>
<td>47,664</td>
<td>13.9%</td>
</tr>
<tr>
<td>Mitchell</td>
<td>41,631</td>
<td>16,506</td>
<td>4.8%</td>
</tr>
<tr>
<td>Mornington Peninsula</td>
<td>25,143</td>
<td>15,858</td>
<td>4.6%</td>
</tr>
<tr>
<td>Nillumbik</td>
<td>4,802</td>
<td>3,916</td>
<td>1.1%</td>
</tr>
<tr>
<td>Whittlesea</td>
<td>110,562</td>
<td>43,382</td>
<td>12.6%</td>
</tr>
<tr>
<td>Wyndham</td>
<td>140,925</td>
<td>53,059</td>
<td>15.4%</td>
</tr>
<tr>
<td>Yarra Ranges</td>
<td>18,949</td>
<td>11,131</td>
<td>3.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>827,666</strong></td>
<td><strong>343,947</strong></td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td>Ave per annum</td>
<td>55,177</td>
<td>22,930</td>
<td></td>
</tr>
</tbody>
</table>

Table 4. Melbourne inner-middle suburbs breakdown by ERP and SPD growth 2016 to 2031.

<table>
<thead>
<tr>
<th>LGA</th>
<th>ERP growth 2016-2031</th>
<th>SPD growth 2016-2031</th>
<th>Share of group total SPD growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banyule</td>
<td>17,649</td>
<td>8,439</td>
<td>2.9%</td>
</tr>
<tr>
<td>Bayside</td>
<td>14,419</td>
<td>8,335</td>
<td>2.9%</td>
</tr>
<tr>
<td>Boroondara</td>
<td>22,261</td>
<td>12,017</td>
<td>4.1%</td>
</tr>
<tr>
<td>Darebin</td>
<td>38,746</td>
<td>17,291</td>
<td>6.0%</td>
</tr>
<tr>
<td>Glen Eira</td>
<td>22,027</td>
<td>9,881</td>
<td>3.4%</td>
</tr>
<tr>
<td>Greater Dandenong</td>
<td>37,819</td>
<td>13,742</td>
<td>4.7%</td>
</tr>
<tr>
<td>Hobsons Bay</td>
<td>15,865</td>
<td>7,475</td>
<td>2.6%</td>
</tr>
<tr>
<td>Kingston</td>
<td>26,587</td>
<td>13,668</td>
<td>4.7%</td>
</tr>
<tr>
<td>Knox</td>
<td>23,154</td>
<td>13,165</td>
<td>4.5%</td>
</tr>
<tr>
<td>Manningham</td>
<td>18,485</td>
<td>9,019</td>
<td>3.1%</td>
</tr>
<tr>
<td>Maribyrnong</td>
<td>44,906</td>
<td>19,716</td>
<td>6.8%</td>
</tr>
<tr>
<td>Melbourne</td>
<td>94,045</td>
<td>57,692</td>
<td>19.9%</td>
</tr>
<tr>
<td>Monash</td>
<td>26,401</td>
<td>10,990</td>
<td>3.8%</td>
</tr>
<tr>
<td>Moonee Valley</td>
<td>24,600</td>
<td>11,094</td>
<td>3.8%</td>
</tr>
<tr>
<td>Moreland</td>
<td>45,305</td>
<td>19,606</td>
<td>6.8%</td>
</tr>
<tr>
<td>Port Phillip</td>
<td>33,978</td>
<td>18,183</td>
<td>6.3%</td>
</tr>
<tr>
<td>Stonnington</td>
<td>25,007</td>
<td>13,322</td>
<td>4.6%</td>
</tr>
<tr>
<td>Whitehorse</td>
<td>25,617</td>
<td>11,671</td>
<td>4.0%</td>
</tr>
<tr>
<td>Yarra</td>
<td>29,412</td>
<td>14,884</td>
<td>5.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>586,280</strong></td>
<td><strong>290,193</strong></td>
<td><strong>100%</strong></td>
</tr>
<tr>
<td>Ave per annum</td>
<td>39,085</td>
<td>19,346</td>
<td></td>
</tr>
</tbody>
</table>

“Our big three regional centres are set to double in size: but with a majority of their growth coming from nearby shires and not from Melbourne metro, their ability to contribute to a planned decentralisation program is limited”.

When decentralisation is often raised, the response of successive governments has been that regional growth can happen through better connectivity to our main regional centres of Geelong, Ballarat and Bendigo. This is a good start, but only a start.

As we will discuss below, the ‘big three’ regional centres can be a part of the solution but more is needed if we are to achieve a successful decentralisation program.

The figures in Table 5 are VIF growth for our ‘big three’ regional centres to 2050.

Under the current projections provided by VIF and factored into Plan Melbourne, Ballarat and Bendigo will each double form 100,000 to 200,000 people and Geelong will grow from 233,000 to just under 400,000 by 2050.

Table 5. Ballarat, Bendigo and Geelong ERP and SPD growth to 2050.

<table>
<thead>
<tr>
<th>LGA</th>
<th>ERP 2016</th>
<th>SPD 2016</th>
<th>ERP 2031</th>
<th>SPD 2031</th>
<th>ERP 2050^</th>
<th>SPD 2050^</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ballarat</td>
<td>103,249</td>
<td>45,249</td>
<td>136,873</td>
<td>60,377</td>
<td>179,462</td>
<td>79,539</td>
</tr>
<tr>
<td>Bendigo</td>
<td>110,446</td>
<td>48,837</td>
<td>144,032</td>
<td>65,256</td>
<td>187,934</td>
<td>86,053</td>
</tr>
<tr>
<td>Geelong</td>
<td>233,349</td>
<td>107,393</td>
<td>296,360</td>
<td>140,823</td>
<td>376,175</td>
<td>183,168</td>
</tr>
</tbody>
</table>

^ Uses growth rates for 2016-2031 period at constant rate per annum to 2050.

An assessment of the council settlement strategies for the ‘big three’ show council’s support these projections. Bendigo is planning to accommodate 900 new dwellings per annum. The city states it has well in excess of 20 years land supply on this basis. Ballarat is planning to accommodate 900 new dwellings per annum to 2040. In total the City of Greater Geelong currently has capacity for the future provision of approximately 83,000 additional dwellings.
It is questionable whether Ballarat and Bendigo are able to carry populations far beyond the 200,000 mark given their topography and proximity to valuable lands nearby such as strategic agricultural land or preservation reserves. Geelong is able to grow to around 500,000 via its current settlement strategy.

However, as stated earlier, these three cities cannot be expected to carry the full burden of decentralisation on top of their already rapid population growth projections.

Were a goal of diverting 1 million people from Metropolitan Melbourne's growth to 2050 achieved solely by decentralising that population to the 'big three' – Ballarat and Bendigo would need to carry 500,000 people each (instead of the projected 200,000) and Geelong’s population would be 700,000 people (not the projected 376,000).

6. Looking at places beyond our regional centres. Without delving into the question of whether the residents of Ballarat, Bendigo and Geelong wish for their cities to become much larger than projected by 2050, it is apparent that a decentralisation program of worth cannot solely rely on the 'big three'.

It is a scenario that is not likely to be politically or practically workable. Nor is it a scenario that delivers fairness.

The purpose of decentralisation is to not only reduce the cost brought by a fast growing population in our capital city, but to share the benefits of our economic growth geo-spatially across the state. Whilst agglomeration benefits are evident and growing, there are also cases internationally where they can be shared between tier one cities and their near neighbours.10

Therefore decentralisation should serve to develop new regional cities in presently less-established areas, in places like those listed in the table below. Greenfield sites that can be made into cities from small towns and hamlets given their location on transport corridors that could support future rapid mass transit infrastructure.

The rational for this thinking is threefold:

1. Smaller regional towns don’t have entrenched interests and a status quo to overcome. (There is an obvious political risk trying to

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10 What makes cities more productive? Agglomeration economies and the role of urban governance: Evidence from 5 OECD countries, OECD, 2015
explain to 100,000 people that the quiet regional centre they call home will not double, but quintuple in size in the next 30 years).

2. Smaller regional towns want growth, want population and industry brought to them and they want better connectivity to Melbourne.

3. To develop new towns provides opportunity to offset a serious portion of the construction cost of the infrastructure via value capture frameworks.

A map of a future fast rail corridors and growth areas is shown below.

The integration of transport and land use planning must be at the centre of decision making.

Example: Geelong Fast Rail.

A commitment to a structured decentralisation program will allow for long term planning integration of major infrastructure and land use.

Too often are land use changes considered in isolation to infrastructure planning. And too often is infrastructure, particularly transport, planned and delivered without adequate consideration of the complimentary land use impacts major transport links bring with them.

"We need better transport - road and rail - because distance is measured in minutes, not kilometres.”

Prime Minister Malcolm Turnbull, National Press Club, 1 February 2017

A good example is that of the recently announced $50m study into a fast rail connection to Geelong. Whilst the technical study is being undertaken, the opportunity presents itself to examine the population and settlement impacts of a rail service that could connect Geelong and Melbourne inside 30 minutes.

Such an infrastructure project would be a
game changer for the region and, just as new highways have done in the past, will likely intensify demand for people to live in Geelong.

This induced demand however will need management. The growth of Geelong is already rapid and its current settlement planning allows for an additional ~175,000 people to be added by 2050. However, if history and international experience is a guide, with hyper connectivity to Melbourne will come hyper acceleration in housing demand at and near Geelong.

A review of the Geelong Settlement Strategy shows that in total, the City of Greater Geelong currently has capacity for the future provision of approximately 83,000 additional dwellings (including investigation areas that are as yet not zoned for residential development).

This capacity is comprised of:

- 40,000 unzoned broad-hectare lots (48% of supply);
- 36,400 zoned broad-hectare lots (44% of supply);
- 5,550 dwellings from zoned major redevelopment sites (7% of supply); and
- 847 lots from zoned major infill (i.e. remnant broad-hectare) sites (1% of supply).

In terms of zoned residential land stocks:

- The Bellarine Peninsula accounts for 21% (or 9,000 lots) of the total identified supply. This compares with the Peninsula’s 34% share of residential lot construction in the last 5.5 years; and
- ‘Geelong’ has 79% (34,000 lots) of the total identified supply.

The zoned residential supply within the Bellarine Peninsula is primarily located within Ocean Grove (3,500 lots) and Clifton Springs/Drysdale (2,100 lots). Within ‘Geelong’ the zoned residential supply is primarily located within the Armstrong Creek Growth Area (18,000 lots) and Lara (5,300 lots). The balance of the supply (10,000 lots) is widely distributed throughout the established urban area of Geelong.


If the LGA were to experience population growth at the G21’s ‘aspirational’ growth rate (2.5% pa), the available land supply would decrease to only 16 years of supply, down from 28 years supply under official projections (1.6% pa).

The inclusion of both the Northern (Lara) and Western (Batesford) Growth Areas adds around 13 years under the aspirational growth scenario.

A key consideration for the future fast rail to Geelong is how quickly population growth will accelerate with the introduction of the service and therefore how many year’s land supply does the City of Greater Geelong project to have under a new high growth scenario?

Transport projects shape cities and states. Major new roads and rail systems induce demand for use of the infrastructure and also increase populations and housing prices in areas serviced by the infrastructure.

The below table is taken from the ‘Long run economic impacts of major infrastructure projects’, SGS Economics and Planning, 2011 and shows the impact of two road projects on parts of Melbourne- the CityLink toll road and the Western Ring Road.
The report states that largest population growth impact (additional population attributable to the infrastructure being built only) from CityLink were 40%+ (Prahran), 33%+ (Hawthorn), and just under 30% (Southbank). This growth was over a 15 year period 1996 to 2011.

Yearly population growth of 2.5 per cent growth is at the high range of the current plan. Should a fast rail connection provide an acceleration in population growth similar to that seen in the case of the CityLink project, an additional 2 to 2.5 per cent annual population growth rate could result.

Such an outcome could see Geelong experience a 4-5 per cent yearly population growth rate, almost double its current ‘aspirational’ scenario. Needing this room for growth in the LGA would require land to be opened up beyond Lara in the north, Batesford in the west and Armstrong Creek in the south. The City of Greater Geelong would also need to re-think its density levels for development around its CBD to accommodate higher demand for housing.

Road upgrades would be required to handle the rapid population growth that would occur in the identified growth areas. Further out, if current migration trends remain intact, the Shire of Golden Plains to Geelong's immediate west, would likely see a ‘spill over’ of population growth into its growing settlement such as Bannockburn. Such a scenario is feasible under a fast train-induced population growth acceleration. Were it to occur, Golden Plains would require significant support from infrastructure investment in roads and transport and in particular in water and sewage services. Bannockburn today remains disconnected from waste water systems with residents relying of septic tanks.

A fast train connection to Geelong provides the opportunity to develop a long-term blue print for how decentralisation can be effectively pursued in other parts of the state. It allows policy makers, planners, local government and the community to work through the various issues involved in planning out the new shape their city will take with the introduction of such transformative infrastructure. It also allows communities and councils within the broader region to envisage the impacts that will affect them as a ‘knock-on’ from Geelong’s growth and to together plan the best possible outcomes for their residents - present and future.

**Figure 5. Summary of Benefits to Metropolitan Melbourne, $2011 (millions)**

<table>
<thead>
<tr>
<th>Benefit</th>
<th>CityLink</th>
<th>Westlink Ring Road</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Conceptualisation</td>
<td>1969</td>
<td>1954</td>
</tr>
<tr>
<td>Project Completed</td>
<td>2000</td>
<td>1999</td>
</tr>
<tr>
<td>Productivity Improvements</td>
<td>$3,257</td>
<td>$228</td>
</tr>
<tr>
<td>Move to More Productive Jobs</td>
<td>$7,745</td>
<td>$2,366</td>
</tr>
<tr>
<td>Total GVA Uplift</td>
<td>$9,003</td>
<td>$2,593</td>
</tr>
<tr>
<td>New Jobs</td>
<td>70,300</td>
<td>24,900</td>
</tr>
<tr>
<td>New Households</td>
<td>58,200</td>
<td>17,500</td>
</tr>
<tr>
<td>Freight Improvements</td>
<td>$81</td>
<td>$43</td>
</tr>
<tr>
<td>Freight Travel Time Savings</td>
<td>-0.8%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Human Capital</td>
<td>$4</td>
<td>$5</td>
</tr>
<tr>
<td>Land Value Improvements</td>
<td>$29,646</td>
<td>$10,174</td>
</tr>
</tbody>
</table>

*The New Urban Crises*, Richard Florida, 2017
Transport and land use planning have a long history of co-dependence. The location of transport corridors have long shaped real estate development patterns. A century ago, tram lines dictated the location of early suburbs and steam train lines opened up the then outer suburbs of Melbourne. Today transit hubs raise the value and size of development in urban areas. There are two primary drivers of this impact, (1) the large-scale investment in transport hubs provide a commitment to an area and therefore helps attract more residents and particularly more affluent residents which in turn drive an increase in property values. And (2) it allows educated professionals and knowledge workers to give up long commutes. These workers are increasingly willing to pay a premium to be located near their jobs in the urban centre or close to mass transit stops that will get them to work quicker. This virtuous cycle of transport-oriented-development (TOD) is envisaged for a structured decentralisation program in Victoria. The benefit of integrating long term land use (zoning, density, urban built form and housing types) with the introduction of rapid mass transit systems is immense. Such integration can allow for settlements to be planned around the rail head and central commercial areas and for social infrastructure such as schools, hospitals and universities to be planned. New cities supported by decentralisation would be designed to leverage the benefits of new ‘Smart City’, sustainability and transport technologies as they become available. They can be sized to provide thriving and viable local economies without local issues of congestion, while at the same time functioning, through fast rail connectivity, as part of Melbourne’s greater metropolitan economy.

Well designed, connected new cities will lead to comfortable, affordable, sustainable and fit-for-purpose dwellings for households across Victoria, making fast rail not merely a mobility solution; it is a critical means to support inter-regional mobility and in the process, to relieve congestion and housing affordability pressures in key sites, while also enabling growth and prosperity in others.

Tackling the trifecta of housing affordability, jobs/productivity and mobility is where a targeted and structured decentralisation program can make the most impact. Fast rail is the breakthrough technology that has not yet been adopted in Australasia – in contrast to other continents.

Whilst fast rail is not mentioned in Plan Melbourne, it can contribute significantly to achieving many of the stated desired outcomes and directions of Plan Melbourne, including as follows:
<table>
<thead>
<tr>
<th>Plan Melbourne Direction (Victorian Government 2017)</th>
<th>The NewRail proposal will:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve access to jobs across Melbourne and closer to where people live</td>
<td>Link new, affordable living zones with areas of jobs concentration in Melbourne, and will also incorporate local co-located jobs in new integrated settlements</td>
</tr>
<tr>
<td>Support the productive use of land and resources in non-urban areas</td>
<td>Enhance rural land use and capture the improved value in the new sustainable and highly connected cities.</td>
</tr>
<tr>
<td>Deliver more housing closer to jobs and public transport</td>
<td>Deliver more new housing closer in time travel connection terms to high-value jobs</td>
</tr>
<tr>
<td>Increase the supply of social and affordable housing</td>
<td>Increase the supply of social and affordable housing by harnessing low value land for new well connected communities</td>
</tr>
<tr>
<td>Facilitate decision-making processes for housing in the right locations</td>
<td>Create a new corridor of ultra-connected land parcels suited to new housing</td>
</tr>
<tr>
<td>Provide greater choice and diversity of housing</td>
<td>Enable a ‘third way’ for growing settlement patterns – a new urbanist models in addition to current suburbanisation and intensification models, thus providing a broader mix of housing options</td>
</tr>
<tr>
<td>Transform Melbourne’s transport system to support a productive city</td>
<td>Add a critical new asset class to Australia’s public transport infrastructure that will support jobs and growth</td>
</tr>
<tr>
<td>Improve local travel options to support 20-minute neighbourhoods</td>
<td>Bring up to a million new householders within 40 minutes of central Melbourne</td>
</tr>
<tr>
<td>Achieve and promote design excellence</td>
<td>Partner to produce design excellence in purpose built new urban form</td>
</tr>
<tr>
<td>Respect Melbourne’s heritage as we build for the future</td>
<td>Offset lower density suburbanisation and in so doing will protect suburban heritage and habitat</td>
</tr>
<tr>
<td>Plan for Melbourne’s green wedges and peri-urban areas</td>
<td>Offset lower density suburbanisation and in so doing will protect green heritage and habitat</td>
</tr>
<tr>
<td>Improve air quality and reduce the impact of excessive noise</td>
<td>Displace private car movements and thus reduce do-nothing pollution levels in the northern corridor</td>
</tr>
<tr>
<td>Invest in regional Victoria to support housing and economic growth</td>
<td>Leverage value capture and invest it in new infrastructure, providing regional connectivity and housing and economic growth</td>
</tr>
<tr>
<td>Improve connections between cities and regions</td>
<td>Create a new city and connect it to existing greater Melbourne locations</td>
</tr>
</tbody>
</table>
Transport and land use planning are being used to drive ‘regionality’ world wide.

Globally cities are no longer competing for the best in human, cultural, technical and financial capital. Instead it is regions or ‘mega regions’ made up of multiple cities within nations and across continents that are the hubs of economic growth world-wide. Just forty of these mega-regions (think north east USA, north west USA, Beijing to Shanghai, London and surrounding cities, central Europe etc.) account for roughly two-thirds of the world’s economic output and more than 85 percent of its innovation, while housing just 18 percent of its population. 12

A decentralisation program for our state can develop a Victorian super-region that offers a single jobs market and agglomerated economic base that can compete with the major centres and ‘mega regions’ in the Asia Pacific.

Victoria, the nation’s most densely populated state is well poised to establish such a regional economic community using rapid mass transit as its foundation for agglomeration of financial and human capital.

At 227,416 sq km in size Victoria is less than half the size NSW at 800,642 sq km, and Victoria has a population density of 26 people per sq km compared to NSW with 9.5 people per sq km and QLD with only 2.6 people per sq km.

Not only does creating a larger economic footprint for Victoria aid the state’s future growth prospects, it can be a catalyst for an eventual knowledge and skills corridor between Melbourne, Canberra and Sydney that can be aided by an eventual fast rail corridor linking Australia’s major east coast capital cities/regions.

Why fast rail connectivity?

Fast rail systems able to deliver speeds of up to 350km are in place on all continents but Australia. The technology has been in use in Japan since 1964 (without a single fatality), in Europe since the 1980’s, with Spain laying more track than any other nation until China surpassed them in 2016.

The argument that Australia is somehow obstructed from entry into the fast rail community by our population, geography or lack of existing infrastructure does not hold up. China only began its fast rail system less than twenty years ago and in that time has created the largest system, by kilometres laid, in the world.

Implementation of the technology and access to world’s best providers has never been easier than it is today. Fast train system manufacturers compete on the world stage to be the chosen system and technology providers for fast rail corridors across Africa, South America, through the former Soviet republics, the Middle East and the sub-continent.

Fast rail is the best technology for the connectivity needed to make a serious decentralisation program for Victoria effective. Trains travelling at top speeds of over 300km/hr can put places as far as 200km from Melbourne within an hours travel time and places in our regions up to 100km from Melbourne within a 30 minute journey.

It is apparent that, in order to achieve decentralisation of 1m-1.7m people into the regions of Victoria a much bolder program is required. We need a ‘step-change’ rather than an incremental approach of slowly sequenced investments in multiple corridors over the medium to long term that will only deliver modest speed increases and delay the implementation of true fast rail.

The private sector has a role to play.

“It is time to strengthen the infrastructure ecosystem with more community and business protagonists as the epicentre of a new decision making model. Its objective is to marshal infrastructure investment and the rapid realisation of better services, new markets and higher productivity; the alchemy of why investment occurs in infrastructure in the first place”.

Garry Bowditch, Better Infrastructure Initiative, Policy Outlook Paper No. 3, 2017

Since 2008, nations have been increasing their infrastructure spending in order to increase investment, bolster low GDP growth and improve productivity.

However, the contribution to infrastructure funding varies across the developed and developing world.

In developing nations, the government provides

70 percent of infrastructure funding, with the private sector funding 20 percent and multilateral development banks (MDBs) funding 10 percent.

In developed economies 40 percent of infrastructure is funded by governments, with the private sector funding 55 percent and MDBs funding 5 percent, respectively.13

Australian infrastructure spending is presently at high levels, financed primarily by windfalls from state asset recycling, record high stamp duty collections and the federal government’s increased allocation to direct investment and state grants.

However, with regards to our funding mix, Australia is somewhere in between the developed and developing economies benchmarks.

Further, whilst infrastructure spending is at all-time highs, there is an expected fall away in the pipeline of infrastructure projects which will become apparent by 2019 as the below chart shows.

These two trends of (1) Australia having a below-OECD level share of private sector funding of infrastructure and (2) the projected taper off in government infrastructure works over 2019, provides a genuine opportunity for a planned decentralisation program to emerge.

A planned decentralisation program will bring with it:

1. A need to build new and upgrade existing transport infrastructure
2. A need for new social infrastructure in Education, Health, Justice, Sports etc.
3. A need for upgraded IT and tele-communications infrastructure
4. An opportunity to invest in latest technology energy generation and distribution as well as water and waste management
5. The construction of new built environments to house populations and businesses in new high-growth regional cities.

Such a program would represent a pipeline of multifaceted infrastructure and construction projects that will span over 30 years. Such certainty over such a long period can allow

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Table 7. Infrastructure investment by industry: Government and private sector share.

Source: ABS 'Gross Fixed Capital Formation by Industry' and 'Private Gross Fixed Capital Formation by Industry' data.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Government &amp; Private</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity, gas, water and waste services</td>
<td>20,151</td>
<td>20,746</td>
</tr>
<tr>
<td>Transport, postal and warehousing</td>
<td>31,576</td>
<td>36%</td>
</tr>
<tr>
<td>Information media and telecommunications</td>
<td>10,263</td>
<td>40%</td>
</tr>
<tr>
<td>Education and training</td>
<td>15,036</td>
<td>42%</td>
</tr>
<tr>
<td>Health care and social assistance</td>
<td>97,772</td>
<td>44%</td>
</tr>
</tbody>
</table>

Figure 6. Annual change in infrastructure spending

As Table 7 above shows, the level of private sector investment in infrastructure varies across industry and asset types. The total share of private investment is also lower than most of our OECD counterparts, with Australian infrastructure funded in aggregate 44 per cent from private investment compared to 55 percent in most developed economies.

Note: Table 7 includes only infrastructure sectors, and hence excludes government spending on non-infrastructure sectors.

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13 ‘Closing the financing gap: Infrastructure project bankability in Asia’, Marsh & McLennan Companies, 2017, marsh.com
for instruments to be developed that facilitate greater private participation in the funding mix.

Private investment is essential. Institutional investors such as Super, Pension and Sovereign funds, as well as insurance companies can help diversify risk, increase access to finance, and improve overall stability by investing counter-cyclically and providing liquidity.

The funding is available if the approaches to attract investment are right.

Australia’s Superannuation assets totaled $2.6 trillion at the end of the March 2018 quarter and internationally, the OECD estimates that as of 2013, the funds managed by institutional investors in OECD countries amounted to nearly $100 trillion.13

Infrastructure assets have several characteristics that make them well-suited to institutional investors’ needs, including:

- Infrastructure projects are long-term investments: once an infrastructure project is completed, it lasts decades and generates a consistent revenue stream. These revenue streams therefore match the long-dated exposure of pension/super fund and insurance policies to payouts.

- Infrastructure investments tend to be less volatile because project revenues are defined by a long-term contract provided by the governments. Governments ensuring these revenue payments provide institutional investors with peace of mind.

- Government contracts for use of infrastructure offer returns that exceed inflation. Therefore, these contracts can make owning infrastructure attractive to institutional investors.

However, despite the attractive characteristics of infrastructure investment, some measures need considering that can be incorporated to attract private capital. These include but are not limited to the following14:

**Long-term loans and financing**

Infrastructure assets need long, large loans—and providing the entirety of that amount can be daunting to any single investor. To mitigate this risk, government/international financial institutions can offer long-term loans for part of the project and allow private sector actors to make short-term investments for the remainder. These arrangements help investors overcome the revenue ‘j-curve’ because revenue streams from the infrastructure assets can be allocated to investors when they need returns while the government/international financial institutions wait out the investment.

**Bundling assets**

The bundling and securitization of operational infrastructure assets can reduce the risk for investors. For example, infrastructure assets with different risk profiles could be bundled together with the resulting financial investment carrying less risk as a result of the diversified underlying assets. Investors could then hold exposure to the bundled asset group which would involve less risk than a one-asset concentration risk.

**Refinancing**

Institutional investors can be put off from investing in infrastructure due to the lack of a secondary trading market for infrastructure assets. Government/international financial institutions can reduce the risk of investors’ capital being tied up in infrastructure by refinancing the infrastructure assets once they are operating. Refinancing following completion (and perhaps ramp up phase of revenues) of infrastructure can free up investor funds for investment in further greenfield projects.

**Public-private partnerships and guarantees**

Public-private partnerships (PPPs) see the private sector finance, build, and operate an infrastructure asset and government promising a stream of payments for a set amount of time. Governments offering guarantees or viability gap financing can attract institutional investors to infrastructure investment. If government is able to ‘step in’ as guarantor where a private operator was unable to make its loan repayments to lenders, the investor returns would remain intact. Such guarantees are used in the EU via the European Investment Bank (EIB) Project Bond Credit Enhancement Program. The Program sees the EIB either issue first-loss position junior debt to a project to a cap of 20% of total project completion cost or the EIB offer a guarantee of cash payment if required for the first-loss of capital in event of default to the 20% cap.

14 This list was first suggested by Sir Danny Alexander, Vice president of the AIIB, in a June 2018 piece for the Global Infrastructure Initiative.
The program allows for private investment in infrastructure that is cheaper to access given the reduced risk profile of the project due to the EIB positioning in the capital structure.

The USA also operates a credit enhancement scheme designed to fill market gaps and leverage substantial private co-investment by providing supplemental and subordinate capital. Under the Transportation Infrastructure Finance and Innovation Act (TIFIA) federal funds are used to stimulate private investment in transport projects.

The TIFIA credit program offers three distinct types of financial assistance, designed to address projects’ varying requirements throughout their life cycles:

- Direct loans (up to 35 years and 49% of cost)
- Loan guarantees
- Standby lines of credit (up to 10 years and 33% of cost)

Each $1 of Federal funds can provide up to $10 in TIFIA credit assistance, and leverage $30 in infrastructure investment.

Incentivising retirees to take Super as an income rather than lump sum

In its 2014 report of infrastructure debt financing, Infrastructure Australia suggested that by 2024 post-retirement assets in Super (funds held by members older than their preservation age) will account for over one third of all Super assets. The report sites ABS statistics that Super benefits post-retirement are taken in lump sum 50 per cent of the time. Based on 2018 figures, such a trend would see some $390m leaving the system each year in lump sum payments.

The Melbourne Mercer Global Pension Index has stated that the Super system in Australia has insufficient requirement or incentive for fund members to take their Super benefits as an income stream.

Incentivising retirees to take up retirement income stream investments rather than draw down lump sum payments would help establish a long term investment base within Super that is presently absent due to (i) the majority of Super accounts being in accumulation phase and (ii) the lump sum drawdowns available to retirees. This current position does not allow Super funds to add ten, twenty or thirty year (a length of time best suited to infrastructure investment) investments to their portfolios in a significant manner as their funds must remain liquid for member withdrawal.

Policy did previously encourage retiree income streams over lump sum drawdowns. The Reasonable Benefit Limit rules limited member drawdowns and provided tax incentives for income stream withdrawals (by allowing income streams to flow from Super tax free but lump sums to be taxed). This system was changed in 2007, but something of its ilk could be re-established.

The more institutional investors like Super funds that can match their required payments to members with long term investments needed for infrastructure funding, the better positioned Australia will be to meet its future infrastructure needs without government debt growth accelerating to unsustainable levels.

Value Capture via long term land use planning

Value capture in the regions can provide a serious contribution to infrastructure cost because of the lower starting value of lands outside of the Melbourne metro area. A 2011 RMIT University study on the impacts of Melbourne’s Urban Growth Boundary (UGB) on land values found there to be an arbitrage of over 4,700 per cent in the value of vacant land inside the UGB (at 2004 $238/sqm and land outside at 2004 $5/sqm).

By having private proponents participate in the development activity associated with new city origination or old regional city expansion, mechanisms of value capture can be applied to sites that are rezoned for ‘higher urban use’. Such mechanisms can raise funds to contribute to the transport and other decentralisation infrastructure costs making the projects more attractive to institutional investors.

Overall, a planned decentralisation program offers many opportunities for the public and private sectors to partner in new and substantial ways. Many benefits are available to government from

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16 ‘Review of Infrastructure Debt Capital Market Financing’, Infrastructure Australia, February 2014
18 ‘Urban land supply, governance and the pricing of land’, Buxton and Taylor, 2011
partnering with the private sector to deliver the infrastructure connecting and within new cities as they grow up across regional Victoria.

The private sector can, where given ownership of projects deliver valuable outcomes. A privately-partnered program could deliver:

1. Cost savings in infrastructure delivery by better management of work package size, contractual arrangements, risk placement and opening our market to more international competition.
2. Value for money, with more private capital being employed to fund infrastructure construction costs in part or in full – offsetting the need for the state to take on debt to fund the program.
3. Efficient management. Private operation of the program saves government from adding to the public service for coordination and delivery of the program- this saves debt-funded infrastructure programs from also adding to recurrent budget spending via swelling the public service.
4. Quality of outcomes. The private sector can and will employ the best and innovative approaches to the program. The flexibility that the private sector has to open work packages to multiple bidders, garner intellectual property and fund research and innovation is a considerable benefit.

9. **Conclusion.** A structured and long term decentralisation program with its associated acceleration of regional centre growth is a proposal designed to address the important ‘gap’ in housing and urban planning policy.

Fast rail delivers the time-proximity of available affordable land within a range of that required to make liveable, affordable and sustainable settlements a viable alternative to the binary inner city-urban fringe housing market dynamic. This cannot be achieved effectively with an improvement of current rail services to obtain higher speeds that peak at 100-150 km/hr.

The outcomes of a literal ‘third way’ of planning our settlements across Victoria are significant. They include improved amenity within regional communities designed for liveability and applying best evidence and benchmarks for healthy, sustainable, community development. They also include the dividend to the economy of providing better housing at more affordable price points, greater access to the Melbourne jobs market for regional residents and the agglomeration benefits of city-regional exchange of services and goods.

The program would need to be designed also to commence the separation of movement within the economy spatially between the movement of people (onto rail) and goods (on road).

The impact on housing supply is substantial. By developing completely new regional communities that are planned around the provision of fast rail transit, the supply of housing onto the market can make a material difference to the current supply side deficit keeping housing prices chronically high.

The impact on employment accessibility is transformative. Being able to access the Melbourne jobs market from regional areas as far as 100km or 200km Melbourne inside travel times that provide proximity to the Melbourne equivalent to suburbs like Coburg, Surrey Hills, Sandringham and Williamstown is a significant change.

The impact on regional economic activity and development is material. Whilst a fast rail network will give regional residents the proximity to Melbourne’s job and commercial market required to make regional living viable and attractive, it will also bring many gains to the regions. One is that agglomeration can work in two directions, between Tier 1 and surrounding, smaller cities and can in doing so benefit both economies.

“**The effects of population growth are not one-sided: although more people can create more problems, more people are also available to help solve them”**.

The Treasury & Dept. of Homeland Affairs, Shaping a Nation, 2018

**THE CHALLENGE IS NOT TO BE UNDERESTIMATED, NOR ARE THE BENEFITS.**
The flow of commerce in the service sector in particular is expected to greatly aid the growth of regional economies at and surrounding the rail head townships. Industry such as education, health and allied services and tourism are the key planks in the regional economic growth platform, as is access to expertise of service providers in Melbourne in the agribusiness and advanced food processing sectors.

A new way of managing and exploiting the opportunities of our historical population growth is needed in Victoria. This is an urgent agenda for any government. Decentralisation needs a planned, targeted and systematic approach that will require the very best of Victorian’s ingenuity, vision and determination.

The challenge is not to be underestimated, nor are the benefits.

About the authors:

The Hon Steve Bracks AC

Steve Bracks was elected the 44th Premier of Victoria in 1999 and was one of the State’s longest serving Premiers.

Subsequent to his retirement as Premier of Victoria, The Hon Steve Bracks AC now holds three major honorary positions: as an Adviser to the Prime Minister of Timor-Leste; and, as a Director of the Bionics Institute of Australia Board. He is also Honorary Chair of The Union Education Foundation.

He is Chairman of the superannuation fund Cbus, a non-executive Director of Jardine Lloyd Thompson Australia; the Bank of Sydney; and a member of the Monash Business School Business Advisory Board (BAB); the Australian Republican Movement’s Republican Advisory Panel (RAP); and, the West of Melbourne Alliance Board.

Mr Bracks is also Chair of AFL SportsReady – the training body for the AFL and Chair of the Kar dinia Park Stadium Trust. He was a Senior Adviser to KPMG from 2007 to 2012 and also a member of the National Australia Bank’s Philanthropic Board from 2008 to 2013.

Mr Bracks was also the Independent Chair for the Australian Subscription Television and Radio Association (ASTRA) from 2008 to 2013. He was the Automotive Envoy for the Australian Government 2009-2013. Additionally from 2011-2013 he was appointed Member of the Department of Foreign Af-

fairs and Trade Council for Australian-Arab Relations (CAAR).

Mr Bracks received a Companion of the Order of Australia in 2010 for services to the Parliament and community of Victoria. In 2011 he was presented with the Timor-Leste Solidarity Medal. He has also received Honorary Doctorates from both Ballarat and Deakin Universities.

The Hon Patrick (Pat) McNamara

Pat was the Deputy Premier of Victoria from 1992 to 1999 and the Leader of the National Party (Victoria) from 1988 to 1999. During the term of government Pat held numerous Ministerial positions including the Minister for Tourism and the Minister for Agriculture and Resources.

During his time in Government Pat was a member of the Budget Expenditure Review Committee that drove Government financial reform reducing State debt and returning Victoria to a triple-A credit rating.

Pat served as Goulburn Shire President, 1977 and a Goulburn Shire Councillor, 1974-1982.

Since leaving parliament Pat has served as a Member of the MCG Trust, Chairman of the Victorian Bushfire Appeal Fund, Board member of The Voice of Horticulture Pty Ltd – representing horticulture across Australia, a Board member of Wine Victoria, Victorian councilor for Rowing Australia and Deputy Chair of Goulburn Murray Water.

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