12 December 2011

Ms Jan Kronberg, MLC
Chair
Outer Suburban/Interface Services
and Development Committee
Parliament of Victoria
Parliament House, Spring Street
EAST MELBOURNE  VIC  3002
By email: osisdc@parliament.vic.gov.au

Dear Chair and Committee Members,

Inquiry on Growing the Suburbs: Infrastructure and Business Development in Outer Suburban Melbourne

Please find enclosed the Property Council’s Submission to the Outer Suburban/Interface Services and Development Committee’s Inquiry on Growing the Suburbs: Infrastructure and Business Development in Outer Suburban Melbourne.

We look forward to the outcomes of the Inquiry and would be happy to facilitate further engagement between the Committee and members of the Property Council if the Committee requires.

If you have any queries, please contact Danni Addison, Policy Advisor and Public Affairs Manager on 03 9664 4230 or at daddison@propertyoz.com.au.

Yours sincerely,

Jennifer Cunich
Executive Director

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1. **Introduction**

The Property Council of Australia is the largest advocacy organisation for the property industry. It has 2200 member companies throughout Australia with property assets of over $400 billion. Approximately 500 of these members are part of the Victorian Division.

Members of the Property Council are involved in the entire property investment cycle: the financing, design, development and maintenance of property, and the services that underpin the industry.

The property industry, particularly in Melbourne’s outer suburbs, plays a vital and valuable role in the creation and development of sustainable communities.

2. **Economic significance of the property industry to Victoria**

- The property industry is the largest industry in Victoria, and is estimated to have **directly contributed $36.9 billion to gross state product (GSP), 12.2% of the total, in 2009-10.**

- A further estimated **$54.4 billion was contributed through flow-on demand for goods and services** in 2009-10.

- The property industry is the second largest employer in Victoria providing **312,165 full time equivalent jobs,** 12.2% of all jobs, in 2009-10.

- **$5.4 billion was contributed to Victorian taxes by the property industry** in 2009-10, the largest of any industry and **40% of total state tax revenue.**

This Inquiry is of interest to the Property Council because it deals with the vital issue of Melbourne’s capacity to cope with growth. Property Council members, particularly in Melbourne’s outer suburbs, play a vital and valuable role in the creation and development communities to enable growth, and therefore are key to ensuring that such communities are both sustainable and liveable.

The fact that Melbourne is due to grow significantly in the coming decades is well known. The population of the metropolitan area is due to reach five million by 2026, and as many as eight million by 2056. This population growth will need to be serviced with a minimum of approximately 27,000

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1 Economic Significance of the Property Industry to the Victorian Economy, Property Council of Australia, 2011 (AEC Group).
additional dwellings per year across Victoria, as well as the development of new employment lands, industrial precincts and office accommodation. Much of this growth will take place in outer suburban Melbourne.

It is essential that infrastructure in these areas is robust and able to support projected growth. At present, however, there are severe deficiencies which need to be addressed.

The Property Council will be making a comprehensive submission to the Victorian Government in response to the draft Growth Area Corridor Plans and will make a copy available to the OSISD Committee following the due date of 20 December 2011.

3. Infrastructure and its impact on liveability and productivity

In addition to its role in underpinning economic performance, adequate infrastructure is a vital factor in creating liveable communities. Where infrastructure is inadequate, liveability suffers and the social and environmental sustainability of an area will be undermined.

As the Property Council has made clear in previous submissions to the OSISD Committee and also to the Victorian Competition and Efficiency Commission (VCEC), liveability is inextricably linked to competitiveness and productivity.

The link between infrastructure and productivity, combined with the long term infrastructure pressures that Victoria is likely to face, is also supported by research undertaken by ACIL Tasman for VCEC as part of its Inquiry into a State-based Reform Agenda.

3.1. Capacity of Victoria's infrastructure to accommodate increased population growth

Engineers Australia released their most recent Report Card for Victoria in 2010. The report gives a letter grade to the infrastructure in 11 Victorian sectors, based on the principle that infrastructure policy, regulation, planning, provision, operation and maintenance are optimal if the infrastructure meets the current and future needs of the community, economy and environment in terms of sustainability, effectiveness, efficiency and equity (Engineers Australia 2010).

Areas were graded from A (fit for current and future demand) to F (inadequate for current and future demand).
Three of the lowest scored infrastructure areas were rail (D), local roads (C-) and storm water (C-). The Property Council believes that there are a number of factors contributing to these low scores.

**Rail**

- There is already severe rail congestion and inadequate service to meet the growth in demand. This is certain to get worse as population increases, unless significant investment and redesign of the network and service patterns takes place.

- Minimal progress has been made in removing the 180 railway crossings in the metropolitan area and on creating tram-road separations. These are a major cause of congestion on both railway lines and roads.

- There has been insufficient investment made in replacement locomotives and rolling stock.

- There has been inadequate progress made in providing rail lines to outer suburbs and urban fringe, such as the long proposed Doncaster line.

**Road**

- Increased road congestion and has reduced travel times. As mentioned above, the lack of progress in removing railway crossings compounds this problem.

- The quality of municipal roads is static or declining.

- There is a lack of committed forward funding for many road projects.

- There is a lack of planning to address gaps in urban network connectivity, notably Westlink and North East link for example.

- Deployment of intelligent transport systems, which allow for the responsive management of traffic flows across the network, has been limited.

**Storm water**

- There is no state-wide Urban Stormwater Strategy.

- There is limited exploitation of stormwater.

- The capacity of local governments to fund stormwater infrastructure renewals and replacements is inadequate.

- There has been a failure to incorporate changes in rainfall due to climate change in the design of stormwater systems.

Whilst the effects of these issues are not limited to any particular area, they are undoubtedly limiting factors for sustainable population growth across Melbourne. This is particularly the case in those
outer suburban areas which are not well served by public transport, or which are located on over-crowded transport routes.

In its current state, Melbourne’s infrastructure is not sufficiently robust to cater for the needs of many existing residents. Significant work is needed to ensure that it is able to accommodate future population growth. This is backed up by the views of Melbourne residents.

When 638 Victorians were surveyed between 29 September and 5 October 2010 by Auspoll on behalf of the Property Council, only 22% agreed that Melbourne has a good road network and minimal traffic congestion. Only 37% agreed that Melbourne has good public transport.\(^7\)

### 4. Funding Infrastructure

It is important to understand the breadth of options available to the Victorian Government with which to secure the necessary funding. The Property Council has undertaken a suite of research into alternative methods of funding for infrastructure, both at a national and Victoria-specific level. Past research is available at [www.propertyoz.com.au](http://www.propertyoz.com.au).

#### 4.1. Plan, Fund, Deliver

The Property Council believes that sufficient funding must be allocated to ensure that necessary infrastructure development can take place in a planned manner, particularly in growth areas. The Property Council welcomed the release by the Victorian Government of the draft Growth Corridor Plans in November 2011. These plans provide a high level overview of potential infrastructure provision and transport corridors amongst other things.

Whilst high level vision is important, however, the plans do not contain timelines for delivery of infrastructure, nor is funding attached beyond projects which are already underway. Experience shows that strategic plans are liable to fail if they are not underpinned by sound economic planning and realistic timelines for delivery. Such frameworks also ensure that those who develop growth areas, as well as those who make the decision to live and work in them, can have confidence that promised infrastructure will in fact materialise as planned.

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The Property Council is currently undertaking a significant piece of research and development work addressing Victoria’s infrastructure priorities and available funding mechanisms. This work will be provided to the Committee once finalised in 2012.

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\(^7\) The liveability of Australia’s cities, Auspoll Survey, Property Council of Australia, January 2011
The most appropriate approach to funding infrastructure is likely to involve a combination of different methods. The methods below are those traditionally employed by Victorian state governments to fund public infrastructure.

- **General budget appropriations** – including taxation revenue, grants from other branches of government (eg GST allocation), proceeds from asset sales, user charges or government borrowing.
  
o Particularly if debt funding is involved, stringent tests must be met to ensure that public funds are the most appropriate approach. This is particularly pertinent as governments seek to reduce their overall spending in the aftermath of the global financial crisis.

- **Development contributions** – includes land transfers, work-in-kind agreements and monetary contributions.
  
o As well as concerns that the Victorian developer contributions system is not operating as intended, there is an inevitable tension between developers and public authorities about the level of investment required to develop adequate infrastructure, and the appropriate cost which should be levied on a development. The issues with development contributions are discussed in detail in the previous section.

- **Public private partnerships (PPPs)**
  
o Although access to capital has improved since the global financial crisis, the construction and property sectors are still constrained by the relative difficulty associated with securing debt financing, making PPPs a less attractive option than was the case in previous years.

In addition to these traditional methods, there are also alternative approaches which may be explored as part of a menu of funding options:

- **Specific-purpose securitised borrowing** – this involves the issuing of debt instruments such as bonds in capital markets to finance infrastructure projects. This debt is commonly repaid using income from the completed project (such as water treatment facilities, bridges or freeways). When used to fund social infrastructure (such as schools and hospitals) the debt is repaid through taxation.
  
o Rates can be high for these types of bonds because they are linked to the risk profile of the particular project. However, certificates of participation (CoP), which are a variation on this principle, are commonly used in the USA to fund local infrastructure projects. The benefit of a CoP is that investors are not forced to wait for the bond to mature before obtaining their return. This reduces the risk, and thereby the risk.

- **Value capture levy** – this aims to capture the uplift in land values which result from development. The levy is generally only captured when property changes hands. Value capture levies have been successfully used to deliver infrastructure in New South Wales and Queensland as well as the UK, Israel and Denmark.
• **Specific purpose levies** – ad hoc levies which are used by governments to raise funds for a specific project. They can be regarded as a tax and are often contentious if there is no clearly defined link between the levy and the infrastructure or services it pays for.

• **Growth area bonds** – these are used commonly in the USA, and seek to use future property tax revenues to repay bonds issued to fund infrastructure. The rationale is that new infrastructure leads to increases in land values which in turn increase the level of taxation (eg land tax and stamp duty) for the area. Once the debt is repaid, the tax revenue reverts to the taxing body.

• **Business improvement districts (BID)** – BIDs are partnerships between business and local authorities in which businesses in a defined area agree to pay an additional tax or fee which goes towards funding improvements in the area. BIDs are common in the UK and the USA.

4.2. **Reforming Victoria’s development contributions system**

Development contributions have a history in Victoria of failing to deliver on infrastructure development, both practically, and as a publicly administered process.

The development contributions system in Victoria has been subject to comprehensive reviews and significant changes over the past decades. In the last 10 years alone, the development contributions system has been the subject of two formal review processes and an inquiry by the Victorian Auditor-General.

The Property Council’s position throughout these multiple reviews has remained consistent; subscribing to the view that funding infrastructure through development contributions, rates, levies and state taxes is inefficient and unsustainable.8

In December 2009, the Victorian Auditor-General identified a number of issues with Victoria’s system of development contributions and tabled the following conclusion in the Victorian Parliament:

> There is little assurance that the development contributions system is operating as intended across local government. A lack of effective oversight and transparent reporting remain, despite similar issues being identified in 2005. Greater accountability for what has been delivered is needed, as is a better understanding of the future obligations that arise from the contributions received9.

The multitude of reviews and reforms the development contributions system has been subject to in recent decades is an acknowledgement that we have not yet got this right in Victoria. It is obvious that the system is inherently flawed and has been operating in a less than adequate form for too long.

In late 2010, the Property Council of Australia commissioned Urban Enterprise to undertake an in-depth analysis of the current state of Development Contribution Plans in Melbourne’s growth areas. The Property Council established through its research, an evidence-based understanding of the

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8 Submission to the Victorian Competition and Efficiency Commission’s Inquiry into the Regulation of the Housing Construction Sector and Related Issues, Property Council of Australia, March 2005

current state of development contributions and the impact of development contributions on housing affordability issues across Victoria.

The report, Development Contributions in Melbourne’s Growth Areas - Why Contributions are Escalating, found that there has been significant scope creep in the form of additional facilities and services funded, increased construction standards, and a shift in the extent of cost recovery that has contributed to significantly increased costs associated with development contributions.\textsuperscript{10}

A copy of the Property Council’s report is at Appendix A.

Current development contributions do not correctly reflect the accurate distribution of responsibility between developers, growth area councils, Victorian Government agencies and other stakeholders and this must be reformed.

Current operation

Development contributions are either payments or in-kind works provided by developers towards the supply of infrastructure to support new land developments.

They are a critical component of Victoria’s broader planning system, and are collected mainly by councils using Development Contributions Plans (DCPs), voluntary agreements and planning and building permit processes.

Development contributions must reflect clear need, nexus and justification for the items and level of funding agreed.\textsuperscript{11} The Property Council is of the view that development contributions, particularly in the growth areas, do not currently reflect these key principles. This must urgently be reformed.

Development levies currently in operation in Victoria include:

- Growth Areas Infrastructure Contribution
- Development contributions levied through Development Contribution Plans
- Section 173 Agreements
- State Community Infrastructure Charge
- Planning permit conditions
- Voluntary agreements
- Land tax
- Drainage schemes and other utility taxes

\textsuperscript{10} Development Contributions in Melbourne’s Growth Areas – Why Contributions are Escalating, Property Council of Australia, 2011
\textsuperscript{11} Victoria’s Development Contribution System, Victorian Competition and Efficiency Commission, 2005, p. 403.
4.3. **Erosion of housing affordability**

The Property Council and the wider development industry recognise the critical importance of housing affordability in maintaining the economic competitiveness of Victoria. The current unsustainable escalation in the rate of development contributions is a major contributor to the erosion of Victoria’s past housing affordability advantages.

Development levies are inhibiting Victoria’s ability to deliver the housing, employment and growth it needs. The first hand experiences of developers and other stakeholders operating in Victoria and in particular in Melbourne’s growth areas, is that the evolution of development contributions to their current form has been so unprecedented that they are now out of control.

Development levies are primarily borne by consumers (home buyers) rather than developers. It is vitally important to note that as always, the additional costs associated with development will ultimately impact on the end user. In the case of the housing industry this means the home buyer.

Land well serviced by infrastructure is not in plentiful supply in Victoria. This increases property demand relative to supply in established, well serviced areas; and adds to the cost of development in new release areas, pushing up home prices beyond what is affordable for many potential home buyers. Timely and adequate provision of infrastructure is necessary to support new housing, employment opportunities and to facilitate commercial, retail and industrial development.

The increased time and cost necessary to prepare a Development Contributions Plan in the growth areas, as required by every Precinct Structure Plan, provides a practical example of the delay imposed on development and the ability to bring land from ‘farm door to front door’. These delays equate to increased holding costs for developers and a significant reduction in competition as new projects are delayed by the development contribution process.

An increased reliance on development contributions to fund infrastructure can result in infrastructure being ‘drip fed’ to an area, and that it can fail to deliver infrastructure of a sufficient scale, on time and in a coordinated manner. There are also concerns that development levies add significantly to the upfront cost of development, and hence act to impede the rate of lot uptake in new residential areas and ultimately impact on housing affordability (as well as infrastructure provision itself).

4.4. **Economically unfeasible**

Development contributions are economically unfeasible, as has been demonstrated in numerous pieces of research undertaken for the Property Council on this issue.

Levies inevitably have an economic consequence and significantly impact on investment decisions, supply and pricing. Analysis by the Allen Consulting Group in 2003 shows that of six conventional forms of infrastructure funding, debt funding provides the most economic benefit and developer levies the least – with a negative impact on jobs from levies.\(^{13}\)


\(^{13}\) *Funding Urban Public Infrastructure*, Allen Consulting Group, 2003.
Development contribution income is reliant on development activity, which by its nature is a volatile and uncertain revenue stream with long term horizons. Yet providing infrastructure to support development means the capital investment is generally needed much earlier.

There is no certainty of cost or process for projects running the gauntlet of a voluntary planning agreement. Investors need to negotiate with multiple agencies, estimated costs are subject to wild increases during the process, and settlement can take lengthy periods of time.

The Property Council acknowledges that the current review of development contributions in Victoria is limited to the mechanics of the system rather than exploring alternatives options for funding infrastructure. We will however, continue to advocate for the introduction of more efficient methods of funding infrastructure.

4.5. Inconsistent policy

Urban growth objectives are being undercut by development levies. In short, government is heavily taxing the supply of a product it says it wants. Low housing supply and a failure to deliver on employment lands are the direct consequences.

The management of growth is important for Victoria’s future prosperity and requires effective leadership and decision making. Sustainable growth will provide more employment opportunities; much needed community infrastructure and more housing and lifestyle choices for all Victorians.

Melbourne will continue to absorb the majority of Victoria’s population growth and there needs to be a strong policy framework to guide this growth. Victoria’s regions will also play an important role. Without jobs people will not be attracted to Victoria’s regional centres and without adequate infrastructure, services and amenities, businesses will not invest in those centres.

Planning policy and supporting strategies must provide for business investment and employment opportunities in Victoria’s regional centres as well as in the growth corridors of metropolitan Melbourne.

4.6. Governance and accountability

Development contributions do not correctly reflect the accurate distribution of responsibility between developers, local government, Victorian Government agencies and other stakeholders, and this must be reformed.

There is little assurance that the development contributions system is operating as intended across local government. A lack of effective oversight and transparent reporting remain.

Under the current development contributions system in Victoria, state and local government have significant incentives to continue to raise the bar on infrastructure specifications and to add new
infrastructure items to the list of what is funded by development contributions. The Property Council has identified this significant scope creep in the growth area context and it must be addressed.

Greater accountability for what has been delivered is needed; as is a better understanding of the future obligations that arise from the contributions received.

The Property Council is currently participating in the Victorian Government's review of development contributions in 2011. A copy of the Options Paper released by the Department for Planning and Community Development, as well as the Property Council's submission in response is at Appendix B.

5. Importance of delivering employment in outer suburban areas

Outer suburban areas provide extensive opportunities to deliver job, as well as population, growth. Indeed the presence of jobs close to residential areas is vital to support sustainable population growth. However, it is not enough to simply provide large areas of land zoned for employment, without a clear strategy to support its development. The following considerations should be dealt with in any strategic approach to growing the outer suburbs.

5.1. Employment growth requires transport infrastructure

As already mentioned, comprehensive infrastructure planning, with attached funding, is the only way to ensure the success of growth in outer suburban Melbourne. In that same vein, jobs will not materialise nor remain in the mid to long term, without adequate transport infrastructure. In fact, the greatest brake on outer suburban growth is likely to be a lack of transport infrastructure which is able to cater for a growth in commuter flows between outer areas, as opposed to into the CBD. For this reason, it is necessary to plan the bulk of employment growth to be located on existing or future transport corridors. In addition, the presence of integrated transport hubs must be capitalised on.

5.2. White collar jobs must be provided to allow sustainable growth

At the same time, whilst it is important that industry is catered for in outer areas, this will not be enough to ensure growth is sustainable. While projected growth in professional, technical and scientific jobs is high in the coming years, employers providing these types of jobs will not locate in outer areas without significant investment in the type of amenities which white collar workers expect.

Simply providing employment opportunities is not enough. Services such as enhanced retail facilities, cafes, bars and restaurants, post offices, banks, super markets and gyms will be required if professional employers are to be persuaded to locate outside the CBD and inner suburbs. In addition, people expect to be able to live in relatively close proximity to job opportunities and to have convenient transport options available for commuting.
5.3. **Space needs to be made for retail growth**

It is estimated that as much as two million square metres of retail space will be required over the next 15 years in Melbourne. Retail is already the city’s largest employer and with a growth in retail space, job opportunities will only increase.

At the same time, outer areas are perfectly placed to benefit from the anticipated growth in online retailing in Australia which will bring with it a greater need for warehousing and logistics support. However, this growth must be planned for to ensure that it happens in a sustainable manner and that potential employees are able and willing to locate close to the resulting jobs.

5.4. **New communities need to provide a desirable lifestyle**

In essence, suburban employment needs to be an attractive, viable option with diversity of choice; otherwise new communities will not be able to provide the lifestyle benefits necessary to draw people to them. It is the job of state and local governments, working hand in hand with business to deliver co-ordinated solutions which provide not only jobs, homes and transport, but high quality health, educational and leisure facilities.

6. **Contact**

The Property Council looks forward to the findings of the Outer Suburban/Interface Services and Development Committee’s *Inquiry on Growing the Suburbs: Infrastructure and Business Development in Outer Suburban Melbourne* and would be happy to provide further commentary and expertise as the Committee may need.

For further information, please contact:

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