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OUTER SUBURBAN/INTERFACE SERVICES AND DEVELOPMENT COMMITTEE

Inquiry into growing the suburbs — infrastructure and business development in outer suburban Melbourne

Melbourne — 18 June 2012

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Dr M. Spiller, principal  
SGS Economics and Planning.
The CHAIR — I welcome Dr Marcus Spiller, the principal of SGS Economics and Planning, who is with us today. It is important for you to note that all contributions here today are protected by parliamentary privilege. The privilege extends only while you are in this committee room at this time; privilege will not be extended to any commentary outside of the sitting today. As you can see, the material will be captured by Hansard, and a transcript will be available for your perusal in about two weeks time. You can make comments around spelling but not content. We welcome any opening remarks you may have, and I invite you to commence the process.

Dr SPILLER — Thank you, Chair, and thanks for the opportunity to come before you. I only have a general, high-level understanding of what your mission and purpose is. I have pulled together some information that I will hand out shortly.

I believe you are particularly interested in some work that my company and I were involved with a couple of years ago with the Melbourne’s south-east region, where a number of councils came together with utility companies, basically, to prepare an economic development strategy for that part of Melbourne. Effectively Melbourne’s south-east covers the whole of the eastern part of Melbourne stretching from bayside all the way east and taking in Maroondah shire, the city and all the way across to the growth areas. In effect it is the whole of the eastern one-third of the metropolitan area. I am afraid I do not have a map with me, but we can supply that later if you want.

This group of councils is interesting because it is an entirely voluntary group, so they were not set up under any particular initiative of government. The councils across those areas felt they had a common challenge and therefore pooled their resources to prepare a strategy.

A few interesting facts about this part of metropolitan Melbourne are that overall it accommodates 1.5 million people, which represents almost 30 per cent of the Victorian population. It is a very significant economic unit in the metropolitan area and in the state as a whole. It accommodates 26 per cent of the state’s jobs and, of the people who work in the region, 80 per cent also live there. In many respects it operates as a self-contained city within a city. Its gross regional product, or the GDP of that region, is over $55 billion a year, which as an economic unit actually makes it more significant than the whole of the city of Adelaide, for example. The GDP is about three-quarters of that of Perth. It is not to be underestimated in terms of its economic contribution.

The strengths of the region are relatively clear. It is a very strong manufacturing region. Its interregional exports of manufacturing product — and by interregional I mean exports of products beyond the boundaries of the region, whether they be to other parts of Melbourne, other parts of Victoria, interstate or internationally — are $25 billion a year, which really does make it quite a powerhouse. In a national sense it is one of the more strategic locations of manufacturing activity.

The figures show that employment-wise manufacturing is declining, and of course we have been reading a lot lately about manufacturing plant closures in various parts of the state including this part. But there are a couple of important things to note about the decline in employment in manufacturing. The first thing is that to some extent — not totally — it is a little bit of a statistical aberration, because over the years a lot of activity that used to occur within manufacturing plants, things like training, design, various aspects of financial management and various functions that used to occur, if you like, within the factory, have been outsourced so that jobs that were once counted to be part of manufacturing are now to be counted as being part of professional business services. It is a statistical categorisation shift that explains some of the shrinkage in employment.

That is one point to note about it. The other point to note is that productivity within the sector generally has been increased so that the contribution of manufacturing to the income of the state continues to be significant. This region, which comprises established suburbs as well as the outer areas and interface areas, has a number of key strengths. It does have a strong base of skills, and that base of skills enjoys a strong set of education, training and research institutions. We have Monash University represented in the region very strongly, we have infrastructure like the synchrotron and many other R and D institutions relating to major corporations.

Notwithstanding these strengths, our work showed that the region has a number of significant challenges before it. Probably the most important challenge, or one of the critical challenges, is that the region is strongly dependent on central Melbourne for its professional, scientific and technical services. One of the things that we have witnessed, really since, if you like, the end of the long boom after the war, has been a pretty dramatic transformation in the way the economic geography of the city operates. Immediately after the war there was a concentration of higher level services in the CBD of Melbourne. Collins Street was famous for its medical services and the other end of
Collins Street was famous for its lawyers, and high-level administration and technical services were dispensed out of the central city, very much the CBD. The CBD was then surrounded by basically working-class suburbs, often old manufacturing-based suburbs that were really in transition, where the employment base was in decline.

Out in the suburbs we had the burgeoning new manufacturing industries of the time. For example, the car industry — which today of course we regard as being under extreme pressure — in the 50s, 60s and 70s was very much a provider of high-quality, high-paying jobs. As I mentioned earlier, a lot of the services required to keep those businesses or those major corporations healthy and competitive were undertaken in house. With a lot of what I call quality jobs — and I do not want to say that in a way that is disparaging to anybody; when I say ‘quality jobs’ I mean the higher paid jobs that are based on advanced skills and training — in the past a lot of those jobs followed the manufacturing plants to the outer areas.

I refer to places like Dandenong, for example, which today we regard as being in transition economically and with a series of social and economic problems, back in the 50s and 60s. You only need to go to the town hall at Dandenong to look at some of the pictures on the walls, such as these, to remind yourself of just how prosperous that place was. The suburbs supported high incomes, high-quality jobs and a very high standard of living. What we have seen, basically since the microeconomic reform period of the 1980s, is a dramatic change in the way we earn our income. That has reflected itself in the economic geography of the city. We have had what — —

The CHAIR — Dr Spiller, just interrupting you for a moment, can you expand on the point about the micro-economic reform of the 1980s before you move on, please?

Dr SPILLER — Okay, sure. The microeconomic reform period I date basically from the floating of the Australian dollar and then there was a whole series of major reforms, including the rolling back of tariff barriers, the deregulation of the banks, the commercialisation, corporatisation and privatisation of infrastructure — a whole series of reforms. They basically loosened up our national economy and exposed it to international competition. This led to a shake-up, if you like, particularly in a state like Victoria, which depended on manufacturing, which to some extent had been protected by a tariff policy, et cetera. It led to a major shakedown in that sector. Moreover, it led to a transformation in the way business is transacted in this country. One of the most important things that I would put to you that happened — I mean, this is my opinion — is that we have had what I call an unbundling of the value chain.

I go back to my example of the factory. Where previously a lot of services were conducted in-house, within the factory walls, those functions have become unbundled. So you might have had a design crew in your factory in the past, but you now buy in those design services. You might have had a large accounting crew in house in the past; you now might have a chief financial officer with some staff, but you buy in a lot of your accounting services. You might have had a marketing department in the past; you now outsource a lot of that. In principle what has happened and what is happening — and this is a global phenomenon, not just a Melbourne phenomenon — is that there is an increasing separation between, if you like, and again not to be disparaging to anybody, the thinking part of the value chain — that is, design, R and D, strategic instrument, brokerage, et cetera — which is the abstract, desk-based thinking part of running an enterprise, and the making and distribution part of the enterprise, which is fabrication, storage, sales and logistics, the actual physical part of delivering or making a product. There is an increasing separation between the thinking and the making part of the value chain.

The economic geography is very interesting and important from the perspective of your work, because a lot of the thinking part of the value chain has gravitated inboard towards the inner city, leaving the suburbs with basically two sets of jobs: jobs that are related to buying and selling things for each other, like retail, consumption-type services; or, if you like, the more competition-exposed jobs that are still linked to manufacturing in those suburban areas.

The CHAIR — If I can put a question to you at this point?

Dr SPILLER — Sure.

The CHAIR — We have seen this through other lenses in terms of the provision of medical practitioners in some of Melbourne’s outlying areas and that split between the professional class, white-collar professionals and those whose skills reside in the production environment. Do you have a model for attracting and retaining professional and white-collar roles on a decentralised basis in these areas?
Dr SPILLER — That is the big question of our age. The reason I was very happy to take up the call to come here today is because I have had people who are thinking about this. But that is a key question. It does relate to this Melbourne south-east strategy because — I will answer your question this way, if I may, Chair — the Melbourne south-east imports $1.3 billion worth of services from lawyers, accountants, financial analysts, engineers, designers, human resource specialists, IT specialists, advertising and marketing gurus, strategic planners and the like, and you can almost put the same analysis on medical practitioners, for example. Here you have a region that is very dependent on drawing in these higher order services from the inner part of Melbourne, and which, in the process, has transformed itself. I personally grew up in North Carlton; I am 58 years old. When I was a kid going to primary school I was ashamed to tell people that I lived in Carlton.

Ms GRALEY — Should have kept the house.

Dr SPILLER — Should have kept the house. However, I have worked my way back, and I am now in a small apartment in Carlton. The inner city has itself absolutely transformed, but we now have two Melbournes, really, sitting side by side. Do I have a model for dealing with that? Put it this way: you have to take, almost, parts of the inner city and relocate them or foster the development of a similar dynamic in those suburban areas. Maybe this is a mixture of analysis and hope rather than it being totally technical, but I think of Melbourne as comprising a range of sub-cities rather than just being the one. We have the inner urban region, which is quite substantial and probably reaches out as far as Box Hill. We have the suburban western part of Melbourne, northern Melbourne, the southern part and the eastern part.

Each of those can be construed almost as a separate city in its own right, and one way of addressing the challenge you have outlined, Chair, is to try to create a CBD dynamic within each of those cities. For Melbourne’s south-east — and the councils in the area recognise this, to their great credit — they look at Dandenong as being their CBD equivalent. I said before that we have a city here about the size of Adelaide but it has no heart. Dandenong can certainly fulfil that role. One would hope that with focused effort, consistency of investment from government and consistency of strategy from government Dandenong could ultimately be the CBD that would host these sorts of higher order services that could then be dispensed into the growth areas of Casey and Cardinia and the more established areas in the board.

The vision I would have for metropolitan Melbourne is one — you might have heard the term — of a polycentric city. Instead of it being totally dependent on the centre, we have a networked, polycentric city, but one of the very important points to note here is that it takes critical mass to develop this dynamic of higher order services. That higher order services have gravitated to central Melbourne because of this unbundling process I have mentioned is not an accident. It is not just a lifestyle thing; it is not driven by the fact that you need good coffee or whatever. Once the value chain is unbundled it is very important for these service enterprises to be located with other service enterprises. They need that critical mass so they can attract the quality workforce they need and so they can complement each other in the services they provide. This is something that in my own business we do all the time; we team up with other consultants to offer a complete service to clients. You need critical mass and what economists call agglomeration in order to develop a base for attracting and holding these higher order services.

The CHAIR — Can you think of an international model where that devolvement to other areas outside of the drawing and the agglomeration of the capital city or the city state, whichever way you wanted to look at it — can you point to any models?

Dr SPILLER — I would point to Europe generally as a jurisdiction where they have spent a lot of time networking cities so that the economic energy is distributed rather than focused in a single place. If implicit in your question, Chair, is the idea that you can somehow divert investment and employment development from these cores to other areas, with respect I would put that it is not a question of trying to stop growth in the inner city and diverting it somewhere else, because it would very much hurt Victoria if we were to break down these tremendous agglomeration economies that we have in the central city of Melbourne. That is one of the reasons we enjoy the standard of living and the strength of the economy that we have — because we have these knowledge bases. We do not want to really interfere with the competitive advantages they have.

What other cities have done is not so much to put a squeeze on the growth of the core, which is a breadwinner, but rather to enable other areas to develop their own strengths and, in time, have their own cores which can offer similar advantages. Europe has been particularly successful, if you like, at deploying policies to achieve that. What the key has been in those situations is connectivity. In this modern, unbundled world the best thing you can
possibly do to improve economic performance is to allow economic agents to interact with each other more efficiently over space. It is not just about broadband, although that is important; it is that physical connectivity. One of our serious challenges in Melbourne is that we are not investing enough in transport infrastructure to enable places like Broadmeadows, Dandenong, Frankston and even Footscray or Sunshine, which have the potential to be the cores of their outer suburban cities, to have the connectivity they need to develop this core of business services. That is a major challenge for all of us.

To answer your question, I cannot point to a single city that somehow has the magic answer, but I can point to a number of examples where, particularly in Europe, places have been energised by improving transport connections. Shall I move on?

The CHAIR — I would just like to underscore your comments and the fact that, from our experience talking to decision-makers in London, London has an allure of its own, and everybody wants to work and say they work in London, be it the City or any part of the Greater London area. It could be Canary Wharf or it could be Stratford. So what they have done is build capacity to move people in and out of London. It is almost like you cannot counter the allure of a metropolis like that. Do you see that applying to Melbourne in addition to the economic effects of agglomeration?

Dr SPILLER — I do see that, but of course London has the tremendous advantage of being a networked city. Yes, London is a powerhouse — everybody wants to work there, and it has the allure you talked about — but, in a transport sense, down through the generations they have made a number of important investments. One of the reasons it is a powerhouse is because it is so brilliantly networked by the Tube and other public transport.

The thing about these advanced business services and these knowledge-based services is that they very much rely on face-to-face contact. That is not to say that all business is conducted face to face, but whenever a commercial transaction that requires trust is at stake face-to-face contact is required. The public transport system in London, even though I like to complain about it, for a knowledge-based economy is almost ideal. For a city like Melbourne, which has similar aspirations, there is a huge challenge before us, because we are struggling to build one Metro line and the cost of it is just enormous. For places like Dandenong and Broadmeadows and so on to have the same sort of economic potential as what we see across the networked centres of London they will need public transport service ability of a similar nature.

The CHAIR — Do you ever see the likes of a Pakenham or a Craigieburn being those centres?

Dr SPILLER — In due course, yes, but of course London has to establish a beachhead first, and I think the first challenge is to identify what are the principal suburban nodes to service those sub-cities of Melbourne. For example — and this may be more a statement of hope than analysis — Dandenong one day could be the capital of the eastern city of Melbourne, and it in turn will have a network system of public transport that connects in your Pakenhams and so forth. Likewise with Broadmeadows, it is the most strategically located centre in that region and warrants the title of capital of the north. In due course it could be networked with places like Craigieburn. To be honest with you, I cannot see a way of leapfrogging that process so that every centre that is now in the far distant outer suburbs can somehow be brought up to speed instantly. I think it does need a staged process whereby we establish CBDs for these sub-cities, and then we connect the other centres into them. In the broader sense that is what I would — —

Mrs KRONBERG — I am going to invite our Deputy Chair to put a question to you, Dr Spiller.

Ms GRALEY — I represent that area of the south-east, and it has been interesting to watch Dandenong develop with the number of public authorities going out there. I notice that my own constituents do go into Dandenong to access those services, so I am just wondering what else needs to be done in Dandenong. I would love a Metro line going out from Dandenong, but are there other things that could be done to capitalise on the investment that has already gone into Dandenong and make it the first step of Melbourne becoming a polycentric city?

Dr SPILLER — Of the things that can be done relatively easily and quickly, I would suggest looking at where university investment goes is a critical one.

Ms GRALEY — Yes, I agree.
Dr SPILLER — Unfortunately the way we set about managing capital investment in the university sector does not seem to be aware of the wider benefits that attach to making those decisions so that we have universities, if you like, optimising the decisions from their own relatively narrow perspective. By the way, I am pretty proud of our universities in Victoria, so I am not being overly critical of them, but institutions — La Trobe, Monash, whatever they might be — do look at their investment programs strictly from their own corporate perspective and say, ‘Okay, where are our students, where are our future students? Where should we be making our next investment? However, their decisions have enormous consequences — what I call external consequences, or consequential action, or costs and benefits. We know from observations over several generations that universities do energise centres. They do bring youth culture. They do bring different forms of retailing. They do bring different forms of accommodation. They do bring more street life. They bring a set of support activities that really do create a vibrancy in centres.

The CHAIR — You are talking about the principles of what we might see as a university town. That is quite a defined area often. I am thinking of the campus of Monash at Clayton.

Dr SPILLER — Yes.

The CHAIR — That activity is on campus; it does not flow out to the wider community because there were so many barriers to that — road systems and so forth.

Dr SPILLER — Absolutely. I am thinking more of RMIT than I am of Monash. If you think of the way that RMIT — and it is a great credit to that institution that the site of it is going to make itself the university of the city — is represented throughout the city, particularly in that northern section, it has decided to make design in its architecture a real mark of its presence. It floods the place with students from every corner of the Earth. It has spawned all sorts of new retailing and hospitality businesses. RMIT has done a lot to activate that part of Melbourne. If I am looking at Dandenong, the universities should almost be paid an extra amount to induce them to say, ‘Okay, based on car travel, we would like to have our campus 3 kilometres outside of Dandenong based on some freeway access analysis or whatever’, if they were looking at it strictly from their own perspective. But if we were to consider the consequential benefits for the rest of Melbourne and for that region, it would almost be warranted from an economic perspective — not almost; I would say it would be warranted from an economic perspective — to induce them to make their investments in those centres, or perhaps compel them to. But we do not live in an age where we compel anybody to do anything like that.

I think university investment is a critical one. Beyond that I think public transport accessibility could be improved significantly. You do have three rail lines connecting into Dandenong. Now with EastLink you have the possibility of getting much better north–south public transport links. They are the sort of things I would be looking at, but university investment and hospital investment, which is also important in terms of bringing in large numbers of workers, and also for providing a base for these advanced services to cluster around. They are important as well.

Mr ONDARCHIE — I know we have not got long, Marcus, so I will get to this question. I have been involved in prime direct investment for a fair bit of my career, making investments overseas. If you look at any economic prospectus by any town, it says, ‘Great living, great lifestyle, great transport, great tertiary institutions, great homes’ — all that sort of stuff. Given your strategy for MSE, what is in marketing terms the USP for Melbourne’s south-east, particularly around the stuff you talk about, like manufacturing and technology investment?

Dr SPILLER — I talked about it importing a lot of advanced business services, but the fact that it is located in Melbourne and does have this very strong nucleus of thinking services very close by in central Melbourne is a major selling point for that region.

The other thing that it has is good connectivity from a logistical perspective. It has got reasonable connectivity right now, but it does have a future in front of it, if you like, so that the prospects of Hastings becoming a key port is recognised in the MSE strategy and something we can offer enterprises as an opportunity in the future.

If I was selling the region internationally, to be honest with you I would be selling Melbourne more generally. I do not think a subregion per se has any major selling points that stand separately and stand up separately in the international context. I would be selling this as being a region that is hooked into one of world’s — it may not be London yet — strongest knowledge-based cities, and you can gain a competitive advantage from that.
Ms McLEISH — I have enjoyed listening to your comments, Dr Spiller. I have a quick one to wrap a little bit of what we are talking about, some of that connectivity. Do you have a sense of what sort of connectivity is preferred? We see a lot of development and there are lots of buses and things, but I constantly hear people have a preference for train. Have you got thoughts around that?

Dr SPILLER — I am economist and a planner, and I suppose as a planner my instinct is always to say that fixed rail public transport is to be preferred because we planners are perhaps trained to think that fixed rail has a way of galvanising development. So not only does it fulfil a good function in terms of moving people from point A to point B, but because it is rail on the ground and it is permanent, investors are galvanised by it. If you put in a rail line or a tram line, you have a greater prospect of getting developers to put in more intense forms of housing and perhaps opening up employment areas et cetera, whereas a bus service can be changed at a whim and therefore does not constitute the same promise, if you like, to the community of an ongoing service.

Having said that, though, there are very good examples around the world where high-quality bus services have made a huge impact. They are mainly South American examples — Curitiba is the one that comes up a lot — and they are not at the same level of economic development as Melbourne. In Curitiba there is an incredible network of bus services, including long haul bus services and feeder services, with high-quality wait stations and interchanges and so forth. They have had a tremendous positive impact. I guess people probably prefer fixed rail, but we need to look at all options.

We probably do not have time to go into them, but I will just quickly introduce the maps I have here. These are maps which SGS has produced of accessibility to different types of employment by car and by public transport. We call them ink blob maps. When you read them, you will see that the deeper the shade the greater the proportion of all metropolitan jobs that you can reach within a certain travel time by a particular mode.

The one I am showing you now — and I will hand them out in a minute — is the number of health jobs that you can reach from any given location in Melbourne within a 20-minute drive. So you can see even from where you are sitting that the central parts of Melbourne enjoy much better accessibility. In fact in Carlton, where I am pleased to say I live, within a 20-minute drive I can reach 60 per cent of Melbourne’s health jobs, whereas if I were living in Pakenham, I would be lucky to reach 5 per cent. You might say, ‘Well, hang on, Dr Spiller, you’re a doctor of economics, you’re not a doctor, so what does it matter to you?’ The important thing about it is that the number of health jobs is a proxy for the quality of health services available to me. The more health jobs that are near to me means that I have a greater choice of specialists and a greater choice of hospitals — all that stuff. So I have many multiples of choice compared with my cousins, brothers or sisters who might be living in Pakenham. You can do the same analysis for tertiary education jobs. Again, there is a much greater choice in certain parts of Melbourne compared with others. You will read this in due course, but it is not a inner versus outer situation here. Public transport really serves only the inner city in terms of access, which is a serious challenge for us.

One of the messages I wanted to leave you with is that we are in grave danger, really, of creating divergent communities: a sort of prosperous core which is privileged, with high-quality jobs, and in a way is immune from the economic cycle — in a way, not totally — which is then surrounded by large suburban communities that are more vulnerable to economic shifts and just do not have the same levels of choice that a large part of the community does enjoy. That to me is a recipe for division and sounds alarm bells. Through Nathan, I will just leave these with you.

The CHAIR — Thank you, Dr Spiller. Our time together has elapsed. On behalf of the rest of the committee, I would like to thank you for your input. We welcome those summary maps that you have provided us with; they are illuminating. It might come about that through our executive officer the committee will ask you some further questions as we formulate our reporting on this. Are you open to that?

Dr SPILLER — I would be delighted, Chair, and I wish you well with your work.

The CHAIR — Thank you very much.

Witness withdrew.