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CEDA 2018 State of the Nation
Tuesday 26 June 2018
National Convention Centre, Bradman Theatre, Canberra

Introduction

I am pleased to have the chance to speak to the Committee for the Economic Development of Australia.

My proposition today is that a critical driver of Australia's economic development is the shape and functioning of our big cities.

The Turnbull Government's infrastructure investment and cities agenda is therefore an important policy tool to achieve our national economic policy objectives.

Today I want to start by outlining the economic importance of our cities, before then turning to speak about the role of major infrastructure projects in shaping our cities, and lastly to explain the Turnbull Government's infrastructure investment agenda including some of the big investment commitments we have recently announced.

The economic importance of our cities

Let me turn first then to the economic importance of Australia's cities.

To start with, they are where most Australians live. 64 per cent of us live in our five biggest cities; around 80 per cent of us live in cities of more than 75,000 people.¹

What is more, if present trends continue the proportion of Australians living in cities and their suburbs is likely to increase. Our four largest cities grew at an annual rate of 2.1 per cent from 2006 to 2016, compared to a 1.7 per cent growth rate for our total population.²

Our cities are also critical to our prosperity and where most economic activity occurs. In 2015-16, the capital cities of Australia (including the ACT) contributed \$1.17 trillion to the national economy, or 71 per cent of Gross Domestic Product.³

According to the Grattan Institute, 80 per cent of the dollar value of all goods and services in Australia is produced on just 0.2 per cent of our land mass – and nearly all this share in our cities.⁴ The combined CBDs of Sydney and Melbourne – just 7.1 square kilometres in area – create almost 10 per cent of the total value of Australia's goods and services.⁵

One reason for the productivity of our cities is that high-skilled and highly-educated workers tend to live in cities. In Australia's four largest cities, the share of people with tertiary qualifications is around 30 per cent, compared to around 18 per cent for the rest of Australia.⁶

¹ Australian Bureau of Statistics, 2018, *3218.0 – Regional Population Growth Australia, 2016-17* ABS Canberra

² *Ibid.*

³ Department of Industry, Innovation and Science, Office of the Chief Economist, 2016, *Australian Industry Report*, DIIS Canberra

⁴ Kelly, J.F and Donergan, P, 2014, *Mapping Australia's Economy – Cities as engines of prosperity*, Grattan Institute Australia

⁵ *Ibid.*

⁶ Australian Bureau of Statistics, 2016, *Tablebuilder, Australian Census 2016*, ABS Canberra

Our cities dominate the 'knowledge services' sector, with around 75 per cent of Australia's knowledge workers live in our four largest cities.⁷

This is another indicator of the growing relative importance of cities - because knowledge workers and knowledge services are making up an ever bigger share of our economy. Knowledge services have expanded from 13 to 18 per cent of GDP since 1990,⁸ and in the same period the share of knowledge service workers has risen from 11 to 14 per cent.⁹

The changing structure of our economy has major implications for our cities and their transport networks. Between the 1940s and the 1970s, the development of our cities reflected the growth of manufacturing in metropolitan suburbs.

At the same time rates of car ownership rose steadily, as cars became more affordable. Much of our existing road network was built between 1955 and 1975 to accommodate these dynamics.

But the knowledge-intensive businesses that are increasingly important in today's economy tend to be concentrated in central business districts or in employment clusters such as universities and hospitals and their surrounding areas.

The data also suggest that the economic value generated in a geographic area is correlated to the density of people working there. According to the Grattan Institute, the Sydney CBD produced \$100 in value for every hour worked there in

⁷ Australian Bureau of Statistics, 2018, 6291.0.55.003 - *Labour Force, Australia, Detailed, Quarterly, May 2018*, ABS Canberra

⁸ Australian Bureau of Statistics, 2017, 5204.0 - *Australian System of National Accounts, 2016-17*, ABS Canberra

⁹ Australian Bureau of Statistics, 2017, 6202.0 - *Labour Force, Australia, May 2018*, ABS Canberra

2011-12; Parramatta, effectively the second CBD in the Sydney conurbation, produced \$68 for each hour worked.¹⁰

The growing economic importance of cities, linked to the rise of the knowledge economy, is not unique to Australia – it is a phenomenon we see in all advanced economies.

The North American academic Richard Florida has written extensively about the way that cities foster economic activity, particularly by bringing knowledge workers together in a way that demonstrably stimulates creativity and productivity. In the economic jargon, greater density fosters knowledge sharing between firms and knowledge ‘spillovers’ between sectors.

In a 2015 newspaper opinion piece following the Canadian election, Florida called for a Ministry of Cities in that country, arguing that cities are key to innovation, productivity and economic growth:

Each of those things revolves around one central pivot – the health and well-being of our cities. Along with talent and technological innovation, it is urbanization – dense, diverse cities – that powers innovation and economic growth today.¹¹

Similar thinking, of course, lay behind the decision by Prime Minister Turnbull in 2015 to appoint the first Minister for Cities at the Commonwealth level under a Liberal National government.

¹⁰ Kelly, J.F and Donergan, P, 2014, *Mapping Australia's Economy – Cities as engines of prosperity*, Grattan Institute Australia

¹¹ Florida, R. 2015, *It's time for a Ministry of Cities*, Toronto Globe and Mail

The role of major infrastructure projects in shaping our cities

If our cities are responsible for a large and growing part of our economy, and if more and more Australians are living in our cities, it makes good sense to have a clear policy focus on how we can make our cities as productive, efficient and liveable as possible.

But this raises an obvious question: what are the policy levers open to the Commonwealth Government to help secure these outcomes?

One of the most important such levers is the Commonwealth's investment in major transport infrastructure projects.

Transport networks shape the physical layout of cities – when you build transport arteries and nodes, development follows. As influential US cities theorist Edward Glaeser tells us: “Transport technologies have always determined the urban form”.¹²

A similar point was made in a 2012 report to the Victorian Government entitled Long Run Economic and Land Use Impacts of Major Infrastructure Projects which analysed the impact of several major projects in Melbourne including the Western Ring Road and CityLoop. It concluded:

The message from this report is clear; major transport investments are a powerful and, perhaps, the pre-eminent policy lever for determining metropolitan structure.¹³

¹² Glaeser E, 2011, *Triumph of the City: How Our Greatest Invention Makes Us Richer, Smarter, Greener, Healthier, and Happier*

¹³ SGS Economics and Planning, 2012, *Long run economic and land use impacts of major infrastructure projects*, SGS Economics and Planning Sydney

We can see the impact of this principle in modern Australian cities in numerous ways. One is the influence of rail corridors on where new housing is being located - particularly townhouses and apartments in our inner and middle ring suburbs.

Between 2001 and 2016, 46 per cent of all new dwellings built in Sydney – some 192,000 dwellings in total - were built within one kilometre of a train station. For Melbourne the figure was 38 per cent and Brisbane 34 per cent.¹⁴

Another is the role of rail connectivity in boosting economic clusters. If there is convenient train service to a location, that makes it attractive for people as a place to work.

In turn, it is a desirable location for businesses - because they know it will be easier to attract employees. So rail can be an important factor to attract jobs and economic activity.

We see a good example of this in Macquarie Park in Sydney – which in 2016 became Sydney's second largest office market, surpassing North Sydney in 2013. Macquarie Park has witnessed the fastest growth in stand-alone office employment of all major centres in NSW over the last two decades, growing by an estimated 6.6% per annum and far outpacing rates of growth across the metropolitan area as a whole of 2.1%.¹⁵

Rail connectivity has been a major factor in attracting new business activity to the area. Following the establishment of the Chatswood to Epping rail link in

¹⁴ SGS Economics and Planning, 2017, analysis for the Department of Infrastructure, Regional Development and Cities of Census Data 2001-2016

¹⁵ BIS Shrapnel, 2015, *Strategic Employment Review, Macquarie Park*

2009, the total economic output of Macquarie Park rose from \$4.68 billion in 2002 to \$9.11 billion in 2013.¹⁶

Macquarie Park is recognised as a technology, communications and biomedical hub. Its rail connectivity builds on other advantages including the size of the former greenfield site; the association with Macquarie University; local planning policies which have encouraged technology and biotechnology businesses to come to the precinct; and zoning and planning changes made alongside the investment in rail which encouraged changes from industrial to commercial uses.

A third illustration of this principle is the way that major infrastructure investment influences land values.

For instance, land located near stations on the new Sydney Metro North West rail line has recently experienced very marked increases in value. Once it became clear that this transformational project was actually going to be delivered, property developers were willing to pay for tens of millions of dollars more for residential properties in locations such as Castle Hill.¹⁷

Similarly, in the case of the M1 Motorway in Brisbane, average annual growth in industrial land values during the planning, construction and delivery of the Gateway Upgrade Project between 2003 and 2010 was 22%, compared to the industrial market average of 16%.¹⁸

¹⁶ PwC and Transport and Tourism Forum Australia, 2014, *Better public transport, better productivity*, Sydney

¹⁷ See, for example: <http://www.dailytelegraph.com.au/newslocal/the-hills/castle-hill-mansions-and-preschool-combine-for-hills-richest-land-sale/news-story/b8a823d12bf90b199b83a9f544f2ead8>

¹⁸ Urbis for Infrastructure Australia, 2013, *Review of Historic Urban Land Value Growth – Ease Coast Capital Cities*

In short, the market places significant value on, and extracts significant value from, major infrastructure projects being delivered.

The Turnbull Government's Infrastructure Investment Agenda

Let me now turn to explaining how the Turnbull Government's infrastructure investment agenda is designed to support the growth and transformation of our cities – so they remain productive, efficient and liveable even as they grow. I want to highlight four features of our agenda.

A long term plan

The first feature is that we have a long term plan. Infrastructure sector stakeholders have long called for the Australian Government to provide more long-term certainty, to move beyond short-term political cycles and to maximise the opportunities for community and private sector involvement in nationally significant infrastructure.

That is why the Turnbull government's record infrastructure commitment of \$75 billion over ten years in this year's budget has so been widely welcomed.

For the first time, the Australian Government has committed to a credible, decade-long pipeline of infrastructure projects focused on driving economic growth, increasing productivity and connectivity, and creating new employment opportunities.

It offers greater certainty for both state governments and industry participants than the traditional approach of confining commitments to the four-year forward estimates period.

For example, the state government in Victoria can now advance planning for the North East Link motorway project, confident in the knowledge that the Commonwealth will support the project with a \$1.75 billion grant commitment.

Infrastructure projects of this scale have a multi-year planning and approval process and construction often takes three to five years and sometimes longer – so setting out a ten year schedule of commitments as we have done makes very good sense.

With a particular focus on rail

A second feature of our \$75 billion plan is the focus on urban rail. This is designed to respond to several factors.

First, rail usage is growing strongly. In Perth, urban heavy rail patronage rose 94 per cent between 2001–02 and 2016–17. In Melbourne, it rose nearly 80 per cent in this period, in Adelaide 79 per cent, and in Sydney over 27 per cent.¹⁹

Secondly, as our cities get larger, they are inevitably becoming denser. If a growing share of Australians are to make the choice to live in townhouses and apartments, part of what makes that choice attractive must be better public transport.

Just as the great cities of the world – London, New York, Shanghai, Hong Kong – make extensive use of metro-style rail services, so that will be increasingly important as Australia's big cities grow.

Already we are seeing a noticeable increase in the density of our housing stock in our biggest cities. Across Australia the proportion of townhouses and semi-

¹⁹ Bureau of Infrastructure Transport and Regional Economics (BITRE), Department of Infrastructure, Regional Development and Cities

detached dwellings rose from 10 to 13 per cent between 2011 and 2016.²⁰ In Sydney, the overall supply of higher density housing grew by just over a third, in the five years between the Census in 2011 and 2016.²¹

Growing density has significant implications for transport planning. As our cities get more dense, heavy rail starts to have clear advantages over other transport modes because of its capacity to move large numbers of people quickly and reliably.

A train line can move 50,000 people an hour. Compare this with a freeway lane which can move 2500 people an hour.²²

A third factor of course is the very substantial capital cost of urban rail. Several of our state governments are making major investments, but the Turnbull Government believes there is also an important role for the Commonwealth.

That is why we committed to a national rail program in the 2017 budget. We promised to invest ten billion dollars over the next ten years in transformational rail projects to better connect our cities, suburbs and surrounding regional areas.

In the 2018 budget we have made major commitments for urban rail, partly funded out of that program. These include up to \$5 billion for a rail connection between the city of Melbourne and Tullamarine Airport; \$1.05 billion for the Metronet project which will build several new or expanded rail lines across

²⁰ ABS Basic Community Profile 2016 and 2011 for Australia (based on Census of Population and Housing data)

²¹ New South Wales Department of Planning and Environment, 2016, *What the 2016 Census tells us about housing*, <http://www.planning.nsw.gov.au/News/2017/What-the-2016-Census-tells-us-about-housing>

²² Transport for NSW, <http://www.sydneytrains.info/about/environment/>

Perth; and \$390 million for the Beerburrum to Nambour project on Queensland's Sunshine Coast.

These commitments build on other rail investments in recent years including \$95 million towards the Gold Coast Light Rail Stage 2 in Queensland; \$490 million for Perth's Forrestfield Airport Link; \$42.8 million for Flinders Link in Adelaide, \$1.7 billion for Sydney Metro City and Southwest, and \$67.1 million for Stage 1 of the Canberra Metro.

We are also co-investing \$20 million in the development of three business cases for faster rail services between our major cities and surrounding regional areas.

Following a competitive process, in March three proposals were selected to receive funding. After the business cases are completed next year, we will consider if any of them should receive project funding from the Commonwealth.

Targeting employment clusters

The third feature of our infrastructure agenda is to support employment clusters. New transport infrastructure can help drive the growth of employment clusters - as Macquarie Park, which I mentioned earlier, clearly demonstrates.

Our commitment to invest up to five billion dollars in a rail link to Melbourne Airport is an important opportunity to support the employment cluster at the airport - as well as provide much enhanced connectivity for passengers.

Already the airport is one of Victoria's largest employment clusters outside the Melbourne CBD, generating more than 14,300 and 43,000 indirect jobs.²³ Direct

²³ Australia Pacific Airports (Melbourne) Pty Ltd (APAM), 2013, *Melbourne Airport Master Plan*, Melbourne Australia

rail connectivity would make it an even more attractive location for businesses - and help generate even more jobs.

Another important opportunity in Melbourne is Monash University and its surrounding area. The Victorian Government has identified the Monash Precinct as a National Employment Cluster, a concentrated corridor of knowledge-based businesses and industry that provides high levels of employment.

But constraints on the existing public transport are limiting the growth potential of this precinct. Patronage on the 601 bus route serving Monash University has more than doubled in the last five years. It is now the busiest bus route in Melbourne - and faces a serious bottleneck at Huntingdale station.²⁴

By connecting Monash to Melbourne's heavy rail network, we can unlock significant new jobs and economic opportunity. That is why the Turnbull Government in this year's Budget announced \$475 million towards the transformational Monash Rail line.

The funding commitment has been struck at a level to make heavy rail feasible: indicative work commissioned by Monash University suggests that a heavy rail shuttle from the campus to Huntingdale station would cost around one billion dollars.

Similar principles underpin the investment we are making around the country. Flinders Link will connect the Flinders University Hospital into the Adelaide metropolitan rail network. The Forrestfield Airport Link project will see the employment cluster at Perth airport connected by rail.

²⁴ Monash Route 601 Patronage Survey March 21, 2017; Monash Annual Travel Survey, 2017

The recently announced plan for a new rail line to Western Sydney Airport is designed to provide excellent connectivity to the jobs cluster which will develop at the airport and the aerotropolis.

Linking to land use planning through city deals

Mention of Western Sydney Airport leads me to the fourth feature of our infrastructure agenda that I want to highlight: leveraging the Commonwealth's infrastructure spend to achieve broader policy objectives, particularly through the use of City Deals.

The Western Sydney City Deal, announced in March this year, is a good example. This is a long-term partnership between the Commonwealth and New South Wales Government together with eight Western Sydney councils, which aims to align planning, infrastructure investment and governance to accelerate job creation, stimulate urban renewal and drive economic reforms.

It has a particular focus on maximising the business-attracting, jobs-generating power of the Commonwealth's \$5.3 billion investment in Western Sydney Airport.

Over the next 20 years an extra half million people are expected to live in the areas served by these councils - so the deal includes a commitment to release over 180,000 new home sites.

The Western Sydney councils have committed to develop a new planning partnership. This is intended to provide for more efficient and higher quality outcomes throughout these council areas.

Another aspect of the deal's focus on land use planning is that the Commonwealth and NSW Governments are working together to plan the Badgerys Creek 'aerotropolis' near the airport.

The aerotropolis will be a hub for sectors such as advanced manufacturing, aerospace and defence and education and skills, and together with the airport, will form the economic core of a thriving and highly liveable city to be built around it.

The rail line which I mentioned earlier is another key element of the City Deal. The Australian and NSW governments have jointly committed to build rail from St Marys to the future Badgerys Creek Aerotropolis, via Western Sydney Airport – with a shared objective to have rail to the airport by the time it opens.

The two governments have agreed to construct this first stage of the rail link as equal partners, each contributing 50 per cent of the funding.

This is stage one of what is ultimately envisaged as a multi stage North South Rail Link running from Campbelltown and Narellan in the south to Schofields in the north.

This will shape the new Western Parkland City as development is drawn to the rail corridor, and has been described as the steel spine of the new city.

The Australian and NSW governments are contributing up to \$50 million each to a business case for this first stage of the North South Rail Link, which will be undertaken in consultation with local government. The business case will be delivered in late 2019.

The North South Rail link represents a key example of the Australian Government's approach to future transport investment. The rail link can shape

the future of Western Sydney providing cross regional access in Western Sydney bringing residents closer to jobs, centres, education and the world in an emerging 30 minute city.²⁵

We are now working to apply these same principles in Perth. In April the Prime Minister and the Premier of Western Australia signed a memorandum of understanding to prioritise negotiation of a City Deal for Perth.

The aim is to leverage the Australian Government's \$2.3 billion METRONET investment to drive policy outcomes in areas such as planning, housing, smart infrastructure, value capture, and local government coordination.

The City Deal will also investigate other focus areas including economic diversification and driving new employment opportunities in suburban centres.

Conclusion

Let me conclude then as I began - with the proposition that the future of our cities is key to Australia's economic development.

I've argued today that the Turnbull Government's infrastructure spending is a key policy lever to our cities remaining efficient, productive and liveable as our economy transform and our cities grow.

Our infrastructure spend is aligned to the key economic priorities of the Turnbull government.

We are investing to drive productivity and efficiency in our cities and urban areas; we are building vital transport links to reduce congestion and drive time

²⁵ Australian Government, NSW Government and Local Governments of the Blue Mountains, Camden, Campbelltown, Fairfield, Hawkesbury, Liverpool, Penrith and Wollondilly, 2018, *Western Sydney City Deal*

savings for commuters and businesses; and we are using city deals to deliver a wide-ranging policy agenda designed to keep our cities and in turn our nation internationally competitive.
