



Ideas to Outcomes

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Infrastructure Victoria
Level 34, 121 Exhibition Street
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Dear Sir/Madam

It is our pleasure to submit a response to *Moving from evaluation to valuation: Improving project appraisals by monetising more economic, social and environmental impacts*, November 2016. We welcome Infrastructure Victoria's (IV) research program on improving the way government undertakes project appraisal and how the economic, social and environmental impacts from infrastructure proposals could be valued in monetary terms.

For 30 years, Committee for Melbourne (Committee) has been shaping a better future for our city. The Committee is an apolitical, not-for-profit, member-based organisation that brings together over 120 organisations from Greater Melbourne's business, academic and community sectors. This diverse group has a passion for Melbourne as a leading global city in the world's fastest-growing region, the Asia-Pacific.

The Committee recently established the MELBOURNE 4.0 Taskforce to prepare Greater Melbourne for the accelerating speed of innovation and disruption that has catapulted us to the early stages of the 'Fourth Industrial Revolution'. The Taskforce is developing a plausible range of futures for Melbourne's economy that will provide a frame of reference to have a structured dialogue and generate strategic options so we can prepare for each possible future economic environment. The Taskforce findings are due to be published by the end of Q1 this year.

The Committee is impressed with IV's research into how the government can achieve optimum value-for-money for infrastructure investment. Given the Committee's strengths and the limited time available we have chosen to focus particularly on issues relating to the Committee's four pillars of Future Economy, Infrastructure, Urban Optimisation, and Liveability that fit into the MELBOURNE 4.0 objectives.

With an annual growth of almost 100,000 new residents each year across Greater Melbourne that is expected to reach seven million by 2030, the ability to successfully absorb and accommodate this growing population is of interest to the Committee. The success of providing for a much larger population will, for a large part, determine whether Melbourne can maintain its status as the world's most liveable city.

Before responding to the paper in more detail, the Committee believes primarily that there needs to be a clear and broad vision for metropolitan Melbourne into which all other ideas and questions being asked in this paper can be slotted. If we are serious about providing for an expanded population, then we need to consider the economic, social and environmental impacts through an articulated Greater Melbourne blueprint about where people will live, work and move. The Committee believes that people should be located where they can thrive. Already outer Melbourne has thousands of people living in isolation without access to public transport and adequate services. By having a strategic vision, we will know what transport is needed and where hospitals, schools and other amenities should be built.

The Committee's view is that a blueprint of sufficient clarity and comprehensiveness will provide a guide for initial filtering of candidate projects even before they progress to cost-benefit analysis, particularly by excluding projects that do not contribute to the urban form and lifestyle desired for the metropolis regardless of their apparent economic merits. IV's 30-year strategy provides many of the building blocks of this blueprint.

Below is a summary of the key observations that the Committee's membership base has made in response to *Moving from evaluation to valuation*.

Vision and cost benefit analysis

The Committee recommends that government (of either hue with multi-party support) with business support should develop a consolidated vision for land use and public transport for where people work, live and play. The Committee commented that much of the employment growth is in the centre of Melbourne and not in the middle and outer suburbs where jobs are needed. For example, a consolidated transport plan is required if jobs are to be established in suburbs like Broadmeadows. In the meantime, big companies are moving back into the city centre due to the lack of services and amenities in the suburbs, and especially the ability to tap into a larger pool of available talent.

The key is to ensure the vision includes a population distribution plan and a job location plan, For example, locating jobs in regional centres within Greater Melbourne provides increased opportunities, while reducing commuting travel needs to be underpinned by a transport plan to make the vision achievable.

In discussing cost-benefit analysis (CBA) as outlined in the paper, the Committee considered whether it could have a broader application and be used to assess the overall shape of the city, that is, to evaluate costs of different shapes including a city that could be denser or polycentric or greenfield versions. For instance, could agencies apply CBA measures to a vision for Greater Melbourne that values economic prosperity along with liveability and social inclusion?

The Committee notes that while CBA methodology is useful in measuring costs and benefits of projects, it tends to be a bottom up tool rather than strategic. Despite the intent to broaden the reach of CBA, the Committee's view is that it is an incomplete picture. Consequently, use of CBA may not necessarily establish priorities unless there is a strategic vision that values elements of liveability on which to base decisions about how and where funds should be allocated. We need to get the vision right and use CBA to prioritise projects for delivery, not rule them in or out.

The Committee is concerned that application of CBA may result in an incomplete picture of the value of certain projects. For example, if a city-centric view is held then investment in services may disadvantage middle and outer suburbs. From a social equity perspective this could mean that provision of services is much less for people living 20 kilometers and beyond from the city compared to those living closer to the city centre.

The Committee notes good practice use of CBA in large project appraisal processes. If, for example, there is investment in a rail network, the costs and benefits of different alignments and marginal components could be tested. A component such as an additional station could be tested to determine how this piece of infrastructure contributes to the overall outcomes of the project. London was cited as a city that takes a considered use of CBA to test incremental components of projects and the evaluation of the proposed South Yarra Metro station in Melbourne is considered to be in line with this approach as good practice.

Essential infrastructure and timeframes

The Committee recommends IV further explore the State's ability to finance projects that are required to meet the State's significant population growth projections. It is the Committee's observation that the significant number of projects and initiatives that are required to be delivered and funded, in what is a relatively short timeframe, do not currently have confirmed funding sources. While the Committee acknowledges certain Commonwealth Government funding contributions, it does note the State has been underfunded in recent times relative to the size of Victoria's population and that any future contributions will only part fund expenditures.

The Committee believes the current infrastructure allocation within the State's budget is insufficient to meet expenditure requirements. As such, the State will need to look at alternative funding sources, including the private sector, as well as explore much more significant infrastructure allocations in upcoming budgets. This may necessitate further discussions with rating agencies to develop a structured solution to maintaining the AAA credit rating.

The Committee suggests that IV considers the implications for federal funding of projects, based on potential alignments of State CBA with Federal Government CBA to optimize cooperation and funding between State and Federal governments.

The Committee recommends that the timeframes for building infrastructure should be shorter. It would be of concern if increased complexity and iterations of CBA to confirm something is needed resulted in enormous time lags on delivery of infrastructure. Where a project has good strategic fit and generally compelling cost-benefit assessment, it may not need to be exhaustively optimised, but instead effort directed to secure the benefits of prompt delivery. Members cited examples of other cities which have built infrastructure much faster than Melbourne.

The Committee recommends strongly that the CBA framework consider economic measures for developing and delivering amenities and public transport at the same time as housing projects are built. The Committee believes that the challenge is to deliver housing at the same time as infrastructure for public transport and amenities. Social inclusion and accessibility problems arise from housing estates being built without supporting transport and amenities, as well as deficiencies in the accessibility of existing public transport as outlined in IV's 30-year strategy.

For instance, suburbs 35-40 kilometers from the city centre have no transport for youth to access education, jobs and other opportunities. Placing a monetary value on social inclusion, for example, a bus when no other transport is available, can make a difference in economic appraisal to strengthen the economic case for prompt provision of accessible transport, and thus should be included in the CBA framework. The Committee is aware there has been some Victorian economic research into the economic value of social inclusion public transport services¹.

The Committee recommends development of a coordinated process to allow for the prioritisation of housing projects, transport and amenities. Hong Kong was cited as an example of where metros and housing were built together. Opportunity value could potentially be monetised by comparing the 10-, 20- and 30-year outcomes of various suburbs and included as an economic value in CBA assessments.

The Committee noted that utilities such as water, sewage and energy infrastructure are developed alongside housing projects but there is a huge time lag for delivery of other essential infrastructure. The Committee suggests that there should be a process for prioritising social housing and transport so that social housing is built at the same time as public transport and other services.

Social impacts and social resilience

The Committee recommends that IV incorporates a statement about the qualitative relationship between public/private transport and quality of life. This may include focused engagement with social sector experts. Additional research could be undertaken on social impacts and community benefit from value capture in the transport network across Greater Melbourne, with reference perhaps to the VAMPIRE index² and using data and evidence that is available. By providing expert input to government, informed investment decisions could be made that emphasise prevention and early intervention across the social sector, and what is the most sensible long-term social infrastructure strategy across the sectors. Use of comparative methodology evaluation could capture the value of social impacts and measuring social outcomes.

¹ Stanley, J., Hensher, D.A., Stanley, J., Currie, G., Greene, W.H., & Vella-Brodrick, D. (2011). Social Exclusion and the Value of Mobility. *Journal of Transport Economics and Policy (JTEP)*, Vol. 45, (2), pp 197-222, available online at <http://web.education.unimelb.edu.au/assets/pospsych/Social%20Exclusion%20and%20the%20Value%20of%20Mobility.pdf>

² Abley Transportation Consultants About the Vampire Accessed at <http://www.vampire.org.nz/vampire>

The social context denotes greater meaning to the task of value capture and the transport system. A vision for Greater Melbourne and positing value capture and the pricing regime within the Australian social context, including global and national social trends and overarching social policy changes, considers not only population growth, but also population ageing and longevity. In addition, the ascendancy of mental health morbidity as a major national health cost, and how transport system improvements can indirectly influence community mental health outcomes, could be a dimension of transport costs and benefits to consider integrating into CBA.

The Committee believes that the four social sectors addressed in the paper could be distinguished in terms of their preventative effect for social outcomes that are difficult to capture in CBA. For instance, delivering more correctional facilities will not generate greater social resilience than delivering better preventative strategies of social housing or targeted health infrastructure. In other words, a hierarchy of outcomes could be considered using some method to make comparisons across the social sector outcomes to make comprehensive decisions about public and private investment.

Mining 'big data'

The Committee recommends that since IV is developing a practical tool for the social housing, health, criminal justice and transport sectors, a common platform for individual data-bases be provided to ensure accessibility to available data. The Committee notes that 'big data' could be mined for more information – we need to be looking at all the data that is available to us on which to make decisions.

Value capture of rent

The Committee recommends that value of land and land rents should be captured as it would considerably pay for investment in road, rail and public transport infrastructure projects as any development raises the value of land and rents. As an initial step, these incremental benefits could be considered in CBA, with the refinements proposed in the paper e.g. hedonic pricing of property values with regards to project benefits and impacts becoming the basis for a value capture methodology.

Environmental concerns

Finally, in terms of liveability, the Committee notes that 'environmental infrastructure' could also be an appropriate sector in which to apply new analytical insight. Trees are incredibly important in large numbers as a piece of infrastructure as shown by the difference in heat mapping between inner and outer suburbs. Environments without trees affects social resilience and walkability. While this issue is not featured in the paper, it is an issue worth a prompt. Compared to the inner suburbs, there are not enough trees and shade in the western suburbs to support community resilience, water and health.

In conclusion

With an ever-increasing population, having an agreed comprehensive blueprint for Greater Melbourne is critical to making informed investment decisions that maximise living and working conditions across the city.

By quantifying early intervention in the health sector, social housing and transport, social return on investment the community is provided with a clearer pathway to resilience and prosperity.

It is critical that the community has buy-in to investment decisions that are being made on their behalf through community consultation. Collaborative partnerships between the government, local councils, industry and the community are critical to finding solutions and continuing improvements to ensure and sustain Melbourne's liveability.

The Committee is encouraged by Infrastructure Victoria's analysis of measures to improve assessment and appraisal of infrastructure proposals.

With our broad membership, the Committee is eager to work with the government, as well as our community leaders, to safeguard Melbourne's future growth and prosperity.

Please do not hesitate to contact the Committee to expand on any of the points touched on in this submission.

Regards

A handwritten signature in black ink, appearing to be "Martine Letts", written in a cursive style.

Martine Letts
Chief Executive Officer
Committee for Melbourne