

30 August 2024

Engage Victoria
Department of Transport and Planning
Victorian State Government

MAV Housing Taskforce Submission to a Plan for Victoria

The Municipal Association of Victoria (MAV), representing all 79 local councils across Victoria, is pleased to submit our response to inform the development of a new Plan for Victoria.

As the peak body for the local government sector, the MAV collaborates with councils to help communities adapt and thrive amid the housing affordability and supply challenges facing our state.

The attached submission, developed by the MAV Housing Taskforce is informed by an evidence-base produced by RMIT's Centre for Urban Research. This submission builds on the previous papers prepared by the MAV in partnership with SGS Economics & Planning titled '*Shaping Metropolitan Melbourne*' and '*Shaping Regional and Rural Victoria*' that were submitted to the Minister for Planning and the Department of Transport & Planning late last year to help inform the development of a Plan for Victoria. These papers are also attached again for your reference.

The MAV Housing Taskforce submission focuses on the recent housing targets and the need for a comprehensive statewide Housing Strategy. Our recommendations highlight additional factors requiring attention and emphasise that growth must enhance liveability. This involves actively engaging councils in planning processes and ensuring all levels of government invest in local amenities and infrastructure.

The MAV is committed to strengthening partnerships between local, state, and federal governments to collaboratively tackle Victoria's housing challenges.

We commend this submission and our previous papers for your consideration in the development of a new Plan for Victoria.

Yours sincerely,



Kelly Grigsby
Chief Executive Officer

MAV Housing Taskforce Submission to a Plan for Victoria



30.08.2024



The voice for
local government

No one understands the challenges and opportunities facing Victoria in the 21st century better than local councils. From rapidly evolving technology to social changes, shifting economies to environmental pressures, our local communities and the governments that represent them – are at the forefront of multiple transformations happening simultaneously.

As the peak body for the Victorian local government sector, the Municipal Association of Victoria (MAV) offers councils a one-stop shop of services and support to help them serve their communities.



ACKNOWLEDGEMENT OF COUNTRY

We acknowledge the traditional custodians of the land on which we live. We recognise their continuing connection to land, waters and culture and pay our respects to their Elders past, present and emerging.

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1. Executive Summary

The Municipal Association of Victoria (MAV) as the legislated peak body of all 79 local governments across Victoria, welcomes the opportunity to inform the development and implementation of a new Plan for Victoria.

As the collective voice of Victoria's local government sector, the MAV works collaboratively with councils to ensure their communities both adapt and thrive, and actively shape the challenges and opportunities facing Victoria in the 21st century. No one understands the current housing affordability and supply challenges facing Victorian communities better than local councils.

This submission, developed by the MAV Housing Taskforce is focussed on the release of the housing targets, and the need to address wider housing supply and policy issues in the preparation of a Plan for Victoria, through a coherent Victoria-wide Housing Strategy.

The MAV Housing Taskforce was established in June 2024, to ensure that a wide range of local government views from metropolitan Melbourne, regional cities and rural Victorian councils, equipped with intimate knowledge of the needs and capabilities of their communities, informed this submission on behalf of the local government sector.

The Taskforce also includes independent urban planning and housing experts, and we thank all Taskforce members for their commitment and expertise in shaping this submission.

The recommendations outlined in this submission and our previously submitted papers titled '*Shaping Metropolitan Melbourne*' and '*Shaping Regional & Rural Victoria*' represent the basis for a comprehensive planning reform agenda.

While the MAV agrees that housing capacity targets have a role in informing local level planning, where sensibly derived, they are by no means sufficient to address the housing affordability problem. Many other factors and system-wide considerations need attention, and our recommendations address these.

Furthermore, growth and change must come with an enduring 'liveability return', and achieving this requires dealing councils 'in' to the planning and development process, and for all levels of government to proactively invest in local amenity and infrastructure improvements to improve liveability and local pride in areas of change.

The MAV stands ready to strengthen the partnership between the three levels of government as all have a role to play in solving the housing problem. We commend this submission to the government for a Plan for Victoria.

Recommendations	
1.	Clarify the role of housing targets as ‘capacity’ targets
2.	Add diversity and quality to the targets
3.	Factor in climate change mitigation, risks and hazards
4.	Be delivered by State and Local Government in partnership
5.	Plan for and commit to enabling ‘development’ infrastructure in identified growth areas
6.	Enable the provision of ‘place infrastructure’, including expanded open space provision
7.	Improve the development contributions system and ensure funds are available to local governments
8.	Establish a mandated Social and Affordable Housing Contribution.
9.	Reform and refine planning scheme amendments processes, and decision-making in state planning pathways, by regionalising resources and engaging local councils
10.	Establish land assembly mechanisms for precinct development
11.	Clarify the incentives and disincentives of current tax policy settings impacting councils and industry
12.	Work with the development industry to identify capacity and capability gaps
13.	Expand state government investment in social and affordable housing

2. Introduction

The Victorian Government has embarked on a significant planning reform agenda, with housing as a significant focus. This includes implementation of actions outlined in the September 2023 Housing Statement including state led planning in ten Activity Centres, a review of the Planning and Environment Act, and the preparation of a new Plan for Victoria, proposed as an 'update' to Plan Melbourne, but expanded to cover the whole state.

Aligned with this reform agenda, the Government released draft local government housing targets in June 2024. The targets imply almost 2 million new dwellings in metropolitan areas and almost half a million dwellings in regional areas, from 2023 to 2051.

The MAV's submission to a Plan for Victoria is based on two papers prepared by the MAV in partnership with SGS Economics and Planning namely, [Shaping Metropolitan Melbourne](#) and [Shaping Regional and Rural Victoria](#). The papers were submitted to the Minister for Planning and the Department of Transport and Planning in late 2023 and established a framework for metropolitan and regional-scale planning, with five 'pillars' for physical and integrated planning. Each paper then identifies four complementary elements for effective implementation covering governance, regulation, infrastructure and resourcing. The directions identified represent the basis for a comprehensive planning reform agenda which we commend to the government for the Plan for Victoria.

This submission is particularly focussed on the release of the housing targets, and the need to address wider housing supply and policy issues in the preparation of a Plan for Victoria, through a coherent Victoria-wide Housing Strategy. The MAV has commissioned RMIT's Centre for Urban Research to produce an evidence-base to inform this submission. A comprehensive evidence review with international case studies can be found in Appendix 1.

Housing affordability, housing supply and a wider policy agenda

In Victoria, a widespread lack of housing affordability is damaging households and communities. Those who are most disadvantaged experience the worst and most lasting effects of this situation.

A lack of housing affordability is also impacting local and regional economies, with businesses and essential service providers unable to attract and keep low and moderately paid workers.

More generally, metropolitan Melbourne remains one of the fastest growing cities in the OECD. A more responsive and efficient housing supply system needs to be put in place if the current affordability 'crisis', and its various manifestations, is not to become an entrenched and continuing feature of urbanisation in Victoria.

The Victorian Government's proposed housing targets are a bold proposal to improve supply responsiveness or 'elasticity'. They require councils to reframe planning settings to significantly increase the potential production rate of new stock, including

in many high demand urban municipalities to “*double their number of new dwellings per year*”¹.

Appropriate application of targets requires understanding of what drives the present and significant decline in affordability and the relationship of supply to those conditions. It further requires consideration of a much larger set of imperatives beyond a simple conception of ‘supply’. The adequacy of housing in the sense of housing location, choice, diversity, quality and accessibility to quality social and physical infrastructure are fundamental components of the sustainment of high quality and liveable built environments. None of these essential attributes can be delivered through a singular attention to supply targets.

In summary, the MAV agrees that targets have a role in informing local level planning, where sensibly derived, but are by no means sufficient to address the housing affordability problem. Many other factors and system-wide considerations need attention, and our recommendations address these.

Furthermore, ‘housing as numbers’ will never be acceptable to local communities, and local councils. Growth and change must come with an enduring ‘liveability return’, and achieving this requires dealing councils ‘in’ to the planning and development process, as they understand local needs and will be curating and managing areas long after the developers and builders have left.

The recommendations for a Victoria-wide Housing Strategy have been informed by the supporting evidence base developed by RMIT’s Centre for Urban Research (refer to Appendix 1: MAV Housing Taskforce Evidence Review).

¹ Jacinta Allan, “Councils Get First Shot At Unlocking Space For More Homes,” news release, 16 June, 2024, <https://www.premier.vic.gov.au/councils-get-first-shot-unlocking-space-more-homes>.

3. Summary analysis and evidence base

Is housing affordability simply a supply problem?

While improved housing supply elasticity is a nationwide imperative, the delivery of a more just and sustainable housing system in Victoria cannot be reduced simply to supply. Attention needs to be given to how the housing system and new housing construction actually work. Consideration must be given to the actual economics of land and particularly housing development; wider market conditions; developer choices as they interact with the regulatory system; existing vacancy within the system; actual geographical conditions; the relationship between investment patterns and housing delivery; and the relative inelasticity of the stock.

Housing affordability challenges have persisted for decades, and throughout all market cycles. Between 2011 and 2021, Victoria increased its dwelling stock at an average rate of 2.3% per annum², a rate exceeding all other states and OECD countries except for Turkey³. Yet the affordability challenge remains stubbornly present.

New dwelling stock can provide choice for those wishing to sell their existing property, meaning the elasticity of new dwelling supply to changes in demand plays an important role in moderating price growth. However, most new demand is met through the existing dwelling stock. Rowley et al.⁴ observed recent supply and demand trends in Australia from 2020 to 2022, and found that a rapid surge in demand was driven by changing lifestyle preferences of existing households, boosted by low interest rates, rising incomes, and government stimulus in the form of the HomeBuilder program. As a result, demand was met with a supply response that served to upgrade the size and value of existing stock.

It is unlikely that removing perceived planning constraints would, by itself, encourage developers to build an abundance of housing. Ball et al.⁵ compare the price elasticities of supply in Britain, the United States, and Australia, finding that the construction of new stock was dependent on high rates of price growth. If prices stabilise or drop, developers respond by delaying the commencement of new building to constrain supply, with local governments reporting that fewer permitted apartments in Melbourne are under construction during a 'cooling' market.

² Rowley et al., *The new normal: changed patterns of dwelling demand and supply*.

³ OECD, "OECD Affordable Housing Database - indicator HM1.1. Housing stock and construction," (2024).
<https://oe.cd/ahd>.

⁴ Steven Rowley et al., *The new normal: changed patterns of dwelling demand and supply*, Australian Housing and Urban Research Institute (Melbourne, 2023), <https://www.ahuri.edu.au/research/final-reports/399>.

⁵ Michael Ball, Geoffrey Meen, and Christian Nygaard, "Housing supply price elasticities revisited: Evidence from international, national, local and company data," *Journal of Housing Economics* 19, no. 4 (2010/12/01/ 2010),
<https://doi.org/https://doi.org/10.1016/j.jhe.2010.09.004>,
<https://www.sciencedirect.com/science/article/pii/S1051137710000446>.

Is affordability hampered by planning controls?

It is a prevailing view among influential economists and one often repeated in policy to attribute inequitable housing accessibility to planning controls. However, the claim that public infrastructure costs, planning permit costs and other impositions on private developer delivery of housing are passed onto homebuyers is fundamentally inconsistent with development economics.

Housing in Victoria is enabled by, but not delivered through, planning systems. Rather, housing is delivered by development entities usually private development companies. Unduly restrictive zoning aside, what shapes delivery is not planning regulation but macro issues such as construction costs, inflation, tax settings and market conditions. The delay of housing starts after permits have been issued is well documented in Melbourne⁶. Other international studies reveal that increasing the supply of developable land for housing can often lead to no tangible (net) construction outcomes, increasingly rapid urban sprawl, and reduced capacity for public agencies to coordinate land use change and achieve ecological and social value outcomes⁷.

The housing targets are an opportunity to reverse existing spatial inequalities, being those that limit access to diverse and affordable housing with a range of tenures in the places that people want to live. However, the housing targets have been calculated based on existing development trends, and access to existing well-serviced neighbourhoods. Ong et al.⁸ analyse the growth of housing from 2005 to 2006 and 2013 to 2014, in which new housing stock exceeded population growth, and where the stock of units substantially expanded in the most job-rich urban neighbourhoods. However, new stock was primarily concentrated in the mid-to-high price segments. This means that positive impacts on affordability must rely on 'filtering down' effects; that is, the chain of vacancies caused when a household moves out of a slightly lower priced/rental dwelling to take up an opportunity in a new build.

Downward filtering is a potential source of more affordable housing, but the extent to which this occurs is contested. It should also be understood that the residual affordability benefit arising from the filtering process might see low and moderate income households accommodated in poor quality, poorly serviced housing. Gross housing supply targets, by themselves, do not address this.

Housing targets must also therefore include targets for housing diversity and quality in an ecosystem of private, social, affordable and key worker housing catering for different life stages and circumstances.

No Australian government can promise well-located and affordable housing based on good faith expectations for a flood of market stock in the privileged locations people already desire, but they can unlock supply by making more places people want to live in. This applies to both metropolitan, suburban and regional and small town locations.

⁶ Ian Woodcock et al., "Speculation and Resistance: Constraints on Compact City Policy Implementation in Melbourne," *Urban Policy and Research* 29, no. 4 (2011/12/01 2011), <https://doi.org/10.1080/08111146.2011.581335>, <https://doi.org/10.1080/08111146.2011.581335>.

⁷ Antoine Paccoud et al., "Land and the housing affordability crisis: landowner and developer strategies in Luxembourg's facilitative planning context," *Housing Studies* 37, no. 10 (2022/10/13 2022), <https://doi.org/10.1080/02673037.2021.1950647>, <https://doi.org/10.1080/02673037.2021.1950647>.

⁸ R. Ong et al., *Housing supply responsiveness in Australia: distribution, drivers and institutional settings*, Australian Housing and Urban Research Institute Limited (Melbourne, 2017), <http://www.ahuri.edu.au/research/final-reports/281>.

This calls for bold thinking and inclusive, community-oriented planning, driven by genuine collaboration between all of government and the private sector.

Planning is an ecosystem of important community-building decisions including open space, employment, key transport infrastructure and social and health facilities. 'Right supply' targets can directly provide affordable housing by capturing private development value through pre-determined, quantitatively defined, affordable housing contributions. Examples such as those implemented in Vancouver⁹ and Bern demonstrate how, but require strictly enforceable targets, backed by a local democratically accountable mandate, and strong regulatory teeth^{10 11}.

In applying targets that demand a quick approval timeframe, care must be taken to avoid inadvertently compromising important qualitative objectives, especially given that developers may respond rationally to a slowing market by withholding development rights until construction is viable¹². The government's housing strategy needs to clearly address how councils can implement and shape local targets for both housing and support provision.

The targets demand important decisions about how our allocation of construction resources meets a variety of policy aims. If the targets do not clearly define the type, tenure and affordability of new stock, the state's construction resources would need to supply significantly more houses to create meaningful affordability outcomes. Dedicating a greater portion of the state's resources to social and affordable housing, supported by government subsidy, would not depend on unreliable 'trickle down' effects to create affordable housing outcomes, and can achieve affordability benefits quicker and with fewer houses.

There is a significant risk that a performance measure dependent on market cycles can result in 'viability' planning, where bleak demand during local downcycles means that important social and environmental objectives are seen as barriers to progress¹³. The formation of target numbers, and identification of developable land, should be place-sensitive, considerate of the existing infrastructure capacity, and designed to maximise net benefits for both future and existing residents.

⁹ Matthew Palm and Carolyn Whitzman, "Housing need assessments in San Francisco, Vancouver, and Melbourne: normative science or neoliberal alchemy?", *Housing Studies* 35, no. 5 (2020/05/27 2020), <https://doi.org/10.1080/02673037.2019.1636001>, <https://doi.org/10.1080/02673037.2019.1636001>.

¹⁰ Bouwmeester et al., "Making room for affordable housing: Project-based negotiations between planning authorities and landowners in Dutch and Swiss densification."

¹¹ Josje Bouwmeester et al., "Making room for affordable housing: Project-based negotiations between planning authorities and landowners in Dutch and Swiss densification," *Land Use Policy* 144 (2024/09/01/ 2024), <https://doi.org/https://doi.org/10.1016/j.landusepol.2024.107264>, <https://www.sciencedirect.com/science/article/pii/S0264837724002175>.

¹² Arend Jonkman, Rick Meijer, and Thomas Hartmann, "Land for housing: Quantitative targets and qualitative ambitions in Dutch housing development," *Land Use Policy* 114 (2022/03/01/ 2022), <https://doi.org/https://doi.org/10.1016/j.landusepol.2021.105957>, <https://www.sciencedirect.com/science/article/pii/S0264837721006803>.

¹³ Mike Raco et al., "Towards a virtual statecraft: Housing targets and the governance of urban housing markets," *Progress in Planning* 166 (2022/12/01/ 2022), <https://doi.org/https://doi.org/10.1016/j.progress.2022.100655>, <https://www.sciencedirect.com/science/article/pii/S0305900622000095>; Jessica Ferm and Mike Raco, "Viability Planning, Value Capture and the Geographies of Market-Led Planning Reform in England," *Planning Theory & Practice* 21, no. 2 (2020/03/14 2020), <https://doi.org/10.1080/14649357.2020.1754446>, <https://doi.org/10.1080/14649357.2020.1754446>.

Targets must also be sensitive to the geography and energy demands of new building and its impact on urban form. Studies¹⁴ have modelled embodied energy requirements of the existing building stock in the City of Melbourne, finding it to be equivalent to 100 years of the energy demand of an entire residential suburb. The location, density and size of new housing is also important. A history of low-density sprawling development has rapidly accelerated Melbourne's transport emissions, triggering an urgent need for a shift towards medium density housing in close proximity to a growing public transport network¹⁵. This pattern will affect some regional cities and rural areas also. Without parallel policy development, delivering the targets may sit in direct contradiction to Victoria's commitment to reducing emissions, given that the construction industry is one of the most significant contributors to emissions.

A broad approach to addressing affordability

The lack of appropriate, affordable housing is largely caused by much wider policy settings that treat housing as an investment asset rather than a place to live or fundamental human need. The primacy of investor perspectives and the dominant focus on supply are frustrating meaningful progress toward more just and sustainable housing outcomes.

There are four key policy areas that would improve housing affordability in Australia:

- Increasing the supply of social and public housing;
- Making renting a competitive alternative to home ownership;
- Curbing property speculation;
- Wage growth and income support.

Few of these are levers in the control of local or State governments but require consistent advocacy to the Commonwealth and other stakeholders to influence policy in these directions.

The one that is in the control of State government is increasing the supply of social and public housing. While investment such as the Victorian Government's Big Housing Build is welcome after years of neglect, more one-off and ongoing investment is needed. It is estimated that Victoria alone requires 6,000 additional social housing dwellings per year for 10 years to bring it up to even the national average rate. In the meantime social housing waitlists expand daily.

Direct investment into social housing increases the supply of housing available for those in greatest need. Governments at all levels have a responsibility to address the needs of vulnerable and disadvantaged people.

¹⁴ André Stephan and Aristide Athanassiadis, "Quantifying and mapping embodied environmental requirements of urban building stocks," *Building and Environment* 114 (2017/03/01/2017), <https://doi.org/https://doi.org/10.1016/j.buildenv.2016.11.043>, <https://www.sciencedirect.com/science/article/pii/S0360132316304747>.

¹⁵ R. J. Fuller and R. H. Crawford, "Impact of past and future residential housing development patterns on energy demand and related emissions," *Journal of Housing and the Built Environment* 26, no. 2 (2011/06/01 2011), <https://doi.org/10.1007/s10901-011-9212-2>, <https://doi.org/10.1007/s10901-011-9212-2>.

4. Recommendations for a Victoria-wide housing strategy

A Victorian housing strategy needs to:

1. Clarify the role of housing targets as ‘capacity’ targets

There is some confusion as whether the housing targets are ‘**delivery**’ targets or ‘**capacity**’ targets for planning purposes, though more recent briefings from departmental officers, has characterised them as the latter. The government should explicitly clarify their role and function, and how they will be finalised with local council and community input. This will establish the social licence for their acceptance and application through the planning system.

Fundamentally, once finalised (and agreed with councils, drawing on the input of expert local government officers), the targets should be used to guide local planning so that there is that there is enough appropriately zoned land for the market to act. This recognises that housing in Victoria is enabled by, but not delivered through, planning systems. Rather, housing is delivered by development entities usually private development companies. Unduly restrictive zoning aside, what shapes delivery is not planning regulation but macro issues such as construction costs, inflation, tax settings and market conditions.

2. Add diversity and quality to the targets

A broad ecosystem of private, social, affordable and key worker housing needs to cater to households across the state with different life stages and circumstances. Furthermore, there needs to be a focus on good housing design.

It’s not just about numbers. Housing targets must also therefore include targets for housing diversity and quality.

3. Factor in climate change mitigation, risks and hazards

Targets must also be sensitive to the geography and energy demands of new building and its impact on urban form.

From a ‘climate adaptation perspective this means that areas for new housing or intensification must be hazard free or designed to avoid hazard and risks. From a ‘climate mitigation perspective it means that consideration needs to be given to moderating the embodied energy in the new building stock, and the development footprint of new development (hence the urgent need for a shift towards medium density housing in close proximity to a growing public transport network in the metropolitan area and major cities, and in managing growth sensitively in regional and greenfield areas).

Climate change impacts and risks and hazard resilience need to be adequately factored into housing targets by local government area.

4. Be delivered by State and Local Government in partnership

The State Government has a responsibility to deliver an efficient system of urban management and housing supply. Councils too want to deliver liveability and a good quality of life for existing and future residents. Councils know their communities and local places and are local 'content experts'.

The joint aim should be to improve liveability and local pride in areas of change, to attract new investment and people.

There is a need for a mature partnership between State and Local state government; both have a role to play and neither entity can solve the housing problem alone.

5. Plan for and commit to enabling 'development' infrastructure in identified growth areas

In many regional areas, on the edges of towns and cities, there is sufficient land allocated for new housing, and in many cases strong underlying demand. A market response and new housing supply is often stifled or held up because of a lack of enabling development infrastructure.

Not all potential development fronts can be serviced, hence the increasing emphasis on additional infill development. This will be difficult to achieve in regional towns and cities. A Plan for Victoria needs to be realistic and identify short to medium term priorities for growth in regional cities and towns, with local government, and commit to a program of enabling infrastructure provision to provide clarity about, and support, desirable housing development.

In a metropolitan context development capacity in controls is generally sufficient (though this will be expanded with the application of housing targets). The evidence suggests that public transport is a key and catalysing infrastructure to stimulate development. Water sensitive urban design via drainage infrastructure is increasingly critical.

Without investment in key enabling development infrastructure, like transport/roads and major drainage infrastructure, housing targets may be rendered meaningless.

6. Enable the provision of 'place infrastructure', including expanded open space provision

Stimulating high quality and liveable local and place development at higher densities depends on expanding open space, public realm improvements, wayfinding, active transport, car parking innovations, micromobility devices, such as e-scooters, and other place-based infrastructure to support growth.

The mechanisms for delivering new open space and other 'place' infrastructure can't be forgotten or left in the 'too difficult basket' to be considered at a later time after Plan for Victoria is developed. Plan for Victoria needs to emphasise the importance of 'place' and establish the funding and joint projects top enable the provision of place and local liveability.

7. Improve the development contributions system and ensure funds are available to local governments

The system of development contributions is not meeting the needs of the development sector nor Local and State Government.

The SGS Economics and Planning papers *Shaping Metropolitan Melbourne* and *Shaping Regional and Rural Victoria* addressed this issue and made the point that ‘a full suite of fit for purpose development contributions is not available to support growth’ and that a ‘fit for purpose infrastructure funding system is vital, particularly for local councils who are at the front line of supporting growth’.

These documents pointed out that a development contribution system should include contributions across four mutually exclusive and additive categories, namely:

- **User pays charges** which are currently the basis of Development Contribution Plans, where future infrastructure costs are apportioned to future development
- **Impact mitigation** contributions typically imposed as permit conditions or perhaps established through a section 173 agreement (negotiated in-kind infrastructure contributions provided by developers).
- **Value sharing**, or ‘value capture’ contributions that are premised on the state reservation or ‘ownership’ of development rights, and apply to a share of the uplift in land value generated from an increase in development potential enabled by planning rezonings and/or the issuing of development approvals. They are imposed in two principal ways in Victoria; via the Growth Areas Infrastructure Charge (GAIC) which applies to ‘greenfield’ development with the Urban Growth Boundary, and the Windfall Gains Tax (WGT) introduced to capture gains associated with land value uplift from planning decisions.
- **Inclusionary requirements** are established via, for example, mandatory car parking provision rates in Planning Schemes and open space contributions in the subdivision legislation. Social and affordable housing might also be an inclusionary requirement, considered as critical or essential infrastructure at a local level.

There is a need to consider such conceptual frameworks in reviewing the development contributions system to close funding gaps, and identify innovative funding solutions.

Amongst other infrastructure funding initiatives, the SGS papers recommended:

- **Establishing a system of standard user pays rates for local development contributions in parallel with DCPs.** This would refine the current system of user pays charges levied through DCPs and ICPS, and enable councils to choose 'off the shelf' infrastructure charges that vary by development context and/or place typology (e.g. activity centre, regional infill and regional greenfield) and are set conservatively (i.e. lower) than what is likely to be possible via an appropriately prepared DCP. The DCP pathway would still be available. Local infrastructure planning linked to land use change would be anticipated in pursuing either approach.
- **Establishing a 'pre-scheduled' value capture contribution ('development licence fee') to replace the Windfall Gains Tax and GAIC with council land exempt and a share of revenue distributed back to councils.** An explicit or 'known' development licence fee would be calculated on the uplift in value generated through more intensive use of land made possible by development consents or rezonings, varying as a \$/sqm rate by use by precinct. A share of any revenue generated by this development licence fee, should be returned to local government, based on growth shares or some other relevant criteria, to assist in infrastructure funding. This is particularly important in regional areas where funding for catalyst infrastructure in more marginal feasibility contexts may be more limited.

Drawing on this framework expanded **inclusionary requirements** for open space and public domain provision will be needed to deliver the **place infrastructure** suggested by the earlier recommendation.

8. Establish a mandated Social and Affordable Housing Contribution

Many councils have now experienced the problems associated with voluntary agreements seeking social and affordable housing contributions. They are inconsistent, expensive, resource intensive and can be an add on cost for developers who may not have factored in such a contribution at purchase or feasibility stage. There is a need to include a mandated social and affordable housing contribution, or specific controls into planning schemes.

This is consistent with the argument in the SGS papers that the development process has a role to play in the delivery of (subsidised) social and affordable housing, as essential infrastructure benefitting all development and communities.

The SGS papers suggest that the design of a Social and Affordable Housing Contribution system should 'ensure a broad base of development is liable (including on non-residential development, and in areas outside metropolitan Melbourne and regional cities), contribution amounts are as clear as possible, and to minimise disruptions to existing development (i.e. introduced with a reasonable lead time of say 2-3 years and then phased up with the rate of contribution low initially and increasing over time).'

The papers also argue that 'local government should be involved in advising on where and how contributions would be invested, having regard to housing needs and demands and meeting strategic planning objectives. In regional Victoria directing funding to the development of key worker or essential housing may be a particular priority.'

9. Reform and refine planning scheme amendments processes, and decision-making in state planning pathways, by regionalising resources and engaging local councils

The planning scheme amendment process is cumbersome and takes too long. A better process that utilises local expertise, and reflects strategic priorities, is required for decisions made through state planning pathways.

Building capacity in regional offices (regionalising resources) including sharing resources, and finding better ways of working with the development sector to communicate challenges and solutions, would be a way to enhance decisions in regional contexts.

The SGS papers address some of these issues in calling for a regulatory audit of the VPP provisions for plan delivery and planning system efficiency, while recognising councils as co-stewards of the planning system, including through structured stakeholder engagement and feedback in system reforms.

10. Establish land assembly mechanisms for precinct development

Given the focus on infill development and activity centre and precinct based increases in residential density, there is a need to consolidate and assemble land to achieve greater yields as well as increased open space, areas for tree canopy, drainage management and active travel paths.

Business as usual and lot by lot development will not be sufficient to achieve the liveable precincts nor the yields required to satisfy the housing and planning aims. There is a need for more effective interventions.

The SGS papers urge a greater role for Development Victoria to intervene for 'orderly and innovative development in greenfield and infill areas, with a mandate to generate net community benefits (social, environmental and economic outcomes) over commercial returns' and for it to 'play an active role in land purchase and development including a focus on land assembly, demonstration projects, and partnering with developers to prepare land for development.'

11. Clarify the incentives and disincentives of current tax policy settings impacting councils and industry

Related to the local infrastructure fundings reform mentioned above, but with a wider remit, the Government should review the role of State and Federal tax settings affecting housing demand and supply. While addressing areas for state level reform (of for example stamp duties, land taxes) it could also establish a platform for state and local government to work together to lobby the Commonwealth to make changes to the tax system (including for example Capital Gains Tax concessions, negative gearing provisions) which would support new and more affordable housing.

12. Work with the development industry to identify capacity and capability gaps

The housing delivery challenge is significant and goes well beyond the planning system and local government responsibilities. The delivery challenge includes the need for a skilled workforce, new housing types, new tenures, more sustainable housing, innovative construction techniques and the use of new material, and increased industry productivity. An 'end to end' understanding of gaps and challenges is required.

There is a need to better understand the gaps in capacity and capability and work with industry or establish a role for government alone or in partnership to fill these.

13. Expand state government investment in social and affordable housing

The state government should establish a clear plan to achieve its own target of reaching the national share of social housing of 4.2% of all housing, as well as expanding affordable housing consistent with state and national goals, through direct investment, leveraging Commonwealth Government funding, land-lease models on government land, working with Councils to invest the proceeds of a mandated Social and Affordable Housing Contribution, and increased social, public and affordable home targets.

5. Conclusion

The Municipal Association of Victoria, as the peak body for local councils across Victoria, welcomes the opportunity to contribute to the development and implementation of a new Plan for Victoria. Our submission, informed by the expertise of the MAV Housing Taskforce, supporting evidence-base produced by RMIT's Centre for Urban Research and previously submitted papers prepared by the MAV and SGS Economics and Planning, offer a comprehensive set of recommendations to address the complex housing challenges facing our state.

While we acknowledge the important role of housing capacity targets in local planning, we emphasise that these alone are insufficient to solve the housing affordability problem. Our recommendations outline a holistic approach that goes beyond simple supply metrics to address the multifaceted nature of system-wide housing issues.

Key points from our submission include:

- The need for a coherent Victoria-wide Housing Strategy
- Emphasis on housing diversity, quality, and affordability, not just quantity
- Consideration of climate change mitigation and risks in housing plans
- Importance of partnership between State and Local Governments in implementation
- Necessity of infrastructure investment to support housing growth
- Improvement of the development contributions systems
- Expansion of State Government investment in social and affordable housing

We emphasise that growth and change must deliver tangible improvements in liveability for communities. 'Housing as numbers' will never be acceptable to local communities and local councils. Growth and change must come with an enduring 'liveability return', which can only be achieved by fully involving councils in the planning and development process. Local councils possess intimate knowledge of their communities' needs and will be responsible for curating and managing these areas long after developers and builders have moved on.

The MAV stands ready to strengthen the partnership between all levels of government to address Victoria's housing challenges. We believe that by adopting a comprehensive, collaborative approach as outlined in our submission, we can create a more equitable, sustainable, and liveable Victoria for all residents.

We commend this submission to the government and look forward to working together to shape a Plan for Victoria that truly meets the needs of our communities, balancing housing supply with quality of life and long-term sustainability.

The MAV would be pleased to provide clarification on any information in this submission. For further information, please contact the MAV at inquiries@mav.asn.au, or on 03 9667 5555.

Municipal Association of Victoria
Level 5, 1 Nicholson Street, East Melbourne VIC 3002
PO Box 24131, 15 Southern Cross Lane, Melbourne VIC 3000
Telephone: 03 9667 5555 Email: inquiries@mav.asn.au
www.mav.asn.au

Appendix 1: MAV Housing Taskforce Evidence Review

Prepared by Nicholas McFarlane and Libby Porter
Centre for Urban Research, RMIT University

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What impacts housing affordability?

Housing affordability can be expressed by the value of consumer goods that a person can purchase after expenditure on housing costs. The most appropriate metric for understanding affordability is rental prices, which reflect the real cost of living in a location and are typically borne by those on lower incomes. Hulse et al.¹ observed changes in the national private rental sector between 2006 and 2016 and found that, while there was no identifiable shortage in the overall stock of rental dwellings, there was an increased concentration of stock at mid-market levels and a reduction in units affordable for those in the lowest two income quintiles. This period predates the relatively recent supply shortage.

Is it all about supply?

Housing targets are often proposed as a mechanism to address a perceived supply problem in the housing system when prices rise rapidly and cause crunches in affordability. Research has demonstrated that housing is an especially 'captured' policy domain by special interests who direct policymakers' attention in particular ways². Both the development industry and some think tanks continue to assert a dominant narrative of housing affordability as being one driven by lack of available housing (ie supply), and this narrative remains dominant in the current crisis.

The Victorian Government has proposed to introduce housing targets to improve the availability of housing by requiring councils to significantly increase the production rate of new stock, including for many high demand urban municipalities to "*double their number of new dwellings per year*"³. Given the direction of policy attention and the level of public debate it is therefore important to understand if this supply solution is both achievable and effective.

The availability of housing across the wider income spectrum is dependent on the production of housing within the landowner market, determined by supply and demand. The price of housing reflects both its consumption value as a living space, and the value of future income to be generated from property ownership, including rental yields and projected capital gains.

House prices rise as demand increases. If the potential capital gains from a property offer more promising and reliable returns than alternative investment classes, then we would expect demand to increase in line with aggregate increases in income⁴. Historically, most surges in demand in Australia have been met by existing homeowners intending to 'upgrade' their dwelling services by improving the quality of their established dwelling, purchasing a new, more expensive dwelling, or purchasing additional investment properties. At the same time, increased incomes in a region attract further migration and changes to existing household structures, creating further demand. The 2004 National Productivity Commission

¹ Hulse et al., "The supply of affordable private rental housing in Australian cities: short-term and longer-term changes," Australian Housing and Urban Research Institute Limited (2019).

² Gurran, N., & Phibbs, P. "Are Governments Really Interested in Fixing the Housing Problem? Policy Capture and Busy Work in Australia," *Housing Studies*, 30(5) (2015)

³ Jacinta Allan, "Councils Get First Shot At Unlocking Space For More Homes," news release, 16 June, 2024, <https://www.premier.vic.gov.au/councils-get-first-shot-unlocking-space-more-homes>.

⁴ Geoffrey Meen, "Housing affordability in Australia and the UK: common problems and common solutions," *Report prepared for the Henry Halloran Trust Lecture, University of Sydney, July* (2016).

Inquiry concluded that the primary driver of house prices at the time was increased demand for higher quality dwellings, rather than more dwelling units to be provided for an increasing number of households⁵.

As demand rises, the market should respond by increasing the supply of dwelling services. New dwelling stock provides choice for those wishing to sell their existing property, meaning the elasticity of new dwelling supply to changes in demand plays an important role in moderating price growth. However, most new demand is met through the existing dwelling stock. Rowley et al.⁶ observed recent supply and demand trends in Australia from 2020 to 2022, and found that a rapid surge in demand was driven by changing lifestyle preferences of existing households, boosted by low interest rates, rising incomes, and government stimulus in the form of the HomeBuilder program. As a result, demand was met with a supply response that served to upgrade the size and value of existing stock. This came at the expense of diminishing the stock of diverse and affordable rental properties, causing a recent post-COVID surge in rental prices. In this case, the affordability impacts that affected renters the most, and are still felt today, were driven by demand-side factors.

The Reserve Bank of Australia⁷ has recently found that the Australian housing market is experiencing a rapid surge in demand relative to supply. This is a cyclical shortage driven by a rapid demand increase in 2021, and is unlikely to continue until 2051. Housing affordability challenges have persisted for decades, and throughout all market cycles. Between 2011 and 2021, Victoria increased its dwelling stock at an average rate of 2.3% per annum⁸, a rate exceeding all other states and OECD countries except for Turkey⁹. With this existing output dependent on precariously available construction resources, a more effective solution may be to redistribute these resources to ensure new supply is the right supply.

It is unlikely that removing perceived supply constraints would encourage developers to flood the market with an abundance of housing. This depends on the creation of a 'buyers market,' whereby properties spend extensive periods of time on the market before being absorbed. Ball et al.¹⁰ compare the price elasticities of supply in Britain, the United States, and Australia, finding that the construction of new stock was dependent on high rates of price growth. If prices stabilise or become increasingly affordable in a slowing market, developers respond rationally to the uncertainty of future profits by delaying the commencement of works. Similar evidence has been found at local levels in the United Kingdom, where the length of time between the granting of planning permission and the commencement of works depended on

⁵ Australian Government Productivity Commission, First Home Ownership: Productivity Commission Inquiry Report (2004).

⁶ Steven Rowley et al., "The new normal: changed patterns of dwelling demand and supply," Australian Housing and Urban Research Institute (2023)

⁷ Sarah Hunter, "Housing Market Cycles and Fundamentals," media release, 16 May, 2024.

⁸ Rowley et al., *The new normal: changed patterns of dwelling demand and supply*, Australian Housing and Urban Research Institute Limited (2023)

⁹ OECD, "OECD Affordable Housing Database - indicator HM1.1. Housing stock and construction," (2024).

¹⁰ Michael Ball, Geoffrey Meen, and Christian Nygaard, "Housing supply price elasticities revisited: Evidence from international, national, local and company data," *Journal of Housing Economics* 19, no. 4 (2010)

the volume of nearby completions entering the market¹¹. Thus, with the number of dwellings approved but not constructed near doubling in the last decade¹², it is highly unlikely that releasing more land would result in an increase in the rate of construction¹³.

In the United Kingdom, Sir Oliver Letwin was commissioned by the government to review a growing gap between permissions and completions on large sites in high demand areas¹⁴. The review found that the median build-out period for these sites was 15.5 years. This was because large sites, which enabled significantly greater development yield, were being constructed based on the 'absorption rate,' being the speed at which they can be released on the market without materially affecting the price. This was not seen as evidence of intentional "land banking," but a reflection of the pace at which it is possible to release new supply in a market characterised by homogenous apartment development targeted towards the same population demographics.

A further barrier is the wider economic change that would be expected if supply were to dramatically increase. If private market housing becomes more affordable, this would result in a more productive economy as disposable incomes grow, affordable housing and employment opportunities encourage further in-migration, and the increased stock allows households to become smaller¹⁵. This is a worthy ambition but would itself demand a further supply response before housing is accessible for those on lower incomes. Housing supply targets that rely on existing demographic trends, even if successful, may well underestimate the extent to which the market is able to address housing affordability for all¹⁶.

Under the existing policy framework, councils cannot deliver housing accessibility through continued deregulation of the planning system. A prevailing view to the contrary is common among economists in the United States, who have attributed inequitable housing accessibility to constraints imposed by local planning systems¹⁷. The United States, however, is distinguished by its decentralised 'exclusionary zoning' controls, argued to allow homeowners to protect their house prices by restricting the entry of low-income residents seen as a threat to their municipal tax base¹⁸. The same phenomenon is not well documented in Australia, where critical services, such as public schools, are not affected by localised zoning regulations.

¹¹ Chris Leishman, "Housing Supply and Suppliers: Are the Microeconomics of Housing Developers Important?," *Housing Studies* 30, no. 4 (2015)

¹² Sarah Hunter, "Housing Market Cycles and Fundamentals," news release, 16 May, 2024.

¹³ David Adams, Chris Leishman, and Craig Moore, "Why Not Build Faster? Explaining the Speed at Which British House-Builders Develop New Homes for Owner-Occupation," *The Town Planning Review* 80, no. 3 (2009),

¹⁴ Oliver Letwin, "Independent review of build out" (2018).

¹⁵ Geoffrey Meen and Mark Andrew, "Planning for housing in the post-Barker era: affordability, household formation, and tenure choice," *Oxford Review of Economic Policy* 24, no. 1 (2008).

¹⁶ Mark Andrew et al., "Affordability targets: Implications for Housing Supply," (London: The Office of the Deputy Prime Minister, 2005).

¹⁷ Joseph Gyourko and Raven Molloy, "Chapter 19 - Regulation and Housing Supply," in *Handbook of Regional and Urban Economics*, ed. Gilles Duranton, J. Vernon Henderson, and William C. Strange (2015).

¹⁸ William A. Fischel, "An Economic History of Zoning and a Cure for its Exclusionary Effects," *Urban Studies* 41, no. 2 (2004)

In fact, by the same metrics used to interrogate the effects of U.S. regulation, Australian planning systems are far more permissive than even the most laissez-faire U.S. cities¹⁹.

Furthermore, the North American studies have yet to develop a clear explanation of the influence of many broader demographic variables, as well the inaccessibility of housing for those on the lowest incomes²⁰. Having acknowledged that removing regulation is unlikely to create affordable housing for low-income earners²¹, this research has more recently used rental price data to explore the relationship between zoning and the actual affordability of housing²². There continues to be a correlation between permissive zoning, construction, and house prices, but no meaningful impact on the affordability of rents. Molloy et al²³ found that the distribution of rents in U.S. cities were consistent in the 1980s, before growth control zoning was introduced. A more likely explanation is that planning restrictions have capitalised perceived supply constraints into higher speculative house prices, but have not affected the supply of affordable rental stock, which is instead determined by local amenities and other demand-side factors.

The housing targets are an opportunity to reverse existing spatial inequalities, being those that limit access to diverse and affordable housing with a range of tenures in the places that people want to live. However, the housing targets have been calculated based on existing development trends, and access to existing well-serviced neighbourhoods. Ong et al.²⁴ analyse the growth of housing from 2005 to 2006 and 2013 to 2014, in which new housing stock exceeded population growth, and where the stock of units substantially expanded in the most job-rich urban neighbourhoods. However, new stock was primarily concentrated in the mid-to-high price segments, and there was little evidence of a 'trickle-down' effect whereby existing properties would be vacated and sold on at a lower price point.

Locally, there is little empirical support for the premise that a concentration of high-priced properties in well-serviced areas will allow for the filtering of properties through lower income households. Evidence from Melbourne shows that older housing in high-demand locations is typically upgraded or knocked down and rebuilt to a higher value before being re-sold, leaving few options for those on lower incomes to migrate into the local area²⁵. In Melbourne, pre-1940s properties in growing inner city neighbourhoods were more likely to 'filter up', rather

¹⁹ Peter Phibbs and Nicole Gurran, "The role and significance of planning in the determination of house prices in Australia: Recent policy debates," *Environment and Planning A: Economy and Space* 53, no. 3 (2021)

²⁰ Andrés Rodríguez-Pose and Michael Storper, "Housing, urban growth and inequalities: The limits to deregulation and upzoning in reducing economic and spatial inequality," *Urban Studies* 57, no. 2 (2019)

²¹ Vicki Been, Ingrid Gould Ellen, and Katherine O'Regan, "Supply Skepticism: Housing Supply and Affordability," *Housing Policy Debate* 29, no. 1 (2019)

²² Raven Molloy, Charles G. Nathanson, and Andrew Paciorek, "Housing supply and affordability: Evidence from rents, housing consumption and household location," *Journal of Urban Economics* 129 (2022); Elliot Anenberg and Edward Kung, "Can more housing supply solve the affordability crisis? Evidence from a neighborhood choice model," *Regional Science and Urban Economics* 80 (2020).

²³ Raven Molloy, Charles G. Nathanson, and Andrew Paciorek, "Housing supply and affordability: Evidence from rents, housing consumption and household location," *Journal of Urban Economics* 129 (2022).

²⁴ R. Ong et al., "Housing supply responsiveness in Australia: distribution, drivers and institutional settings," Australian Housing and Urban Research Institute Limited (2017),

²⁵ Christian Nygaard et al., "Filtering as a source of low-income housing in Australia: conceptualisation and testing," ed. Australian Housing and Urban Research Institute (2022).

than down, while affordable rentals comprised former public housing and 'six-pack' developments constructed in the 1950s and 1960s²⁶. Density can have negative spillover effects on neighbouring properties, but also increases demand for the wider neighbourhood through increasing returns, leading to price appreciation for existing home owners and wider wealth disparities over time²⁷.

This is because concentrations of high-income residents increase the rent, and quality, of nearby businesses. High-performing private schools profit from an influx of students, which is then reinvested and capitalised into higher house prices. Neighbourhood social interactions improve the relative wellbeing of residents. The result is a surplus of demand in premium locations relative to other neighbourhoods, which is met largely through upgrades to the existing stock, rather than an abundance of new housing.

It follows that any affordability benefits generated by new supply in high-demand locations could instead be captured by spillover effects to nearby lower-demand neighbourhoods, irrespective of the supply elasticity for new stock. Anenberg and Kung²⁸ simulated an exogenous increase in the housing stock of units in the United States, and found only marginal effects on household renter cost burdens. New stock may in fact be counterproductive after accounting for its effects on local labour markets²⁹. Fingleton et al.³⁰ use a dynamic spatial model to determine the spatial effects of an exogenous 5% and 15% increase in the dwelling stock in high-value areas in England. The study found that the increased stock led to the migration of high-income workers, a productivity-driven expansion of local jobs, and further segregation between affordable and unaffordable locations. While this had knock-on effects to the prices of lower-demand neighbourhoods, the overall affordability improvements were negligible, particularly after costing for the additional transportation needs for those priced out of job-rich neighbourhoods.

Thus, increasing the concentration in areas of existing high demand is a potentially regressive strategy that may further entrench existing patterns of spatial disadvantage³¹. Rents are more likely to be priced based on their proximity to jobs and amenities than they are from supply responses to homeowner demand.

A more effective strategy is to reverse existing trends. This means improving the substitutability of lower demand neighbourhoods by proactively investing in local amenity and infrastructure improvements³². Effective supply responses can also be achieved in concert

²⁶ Matthew Palm, Katrina Eve Raynor, and Georgia Warren-Myers, "Examining building age, rental housing and price filtering for affordability in Melbourne, Australia," *Urban Studies* 58, no. 4 (2020).

²⁷ Christian A. Nygaard, George Galster, and Stephen Glackin, "The Size and Spatial Extent of Neighborhood Price Impacts of Infill Development: Scale Matters?," *The Journal of Real Estate Finance and Economics* (2022).

²⁸ Anenberg and Kung, "Can more housing supply solve the affordability crisis? Evidence from a neighborhood choice model."

²⁹ Bernard Fingleton, "Housing Supply, Housing Demand, and Affordability," *Urban Studies* 45, no. 8 (2008)

³⁰ Bernard Fingleton, Franz Fuerst, and Nikodem Szumilo, "Housing affordability: Is new local supply the key?," *Environment and Planning A: Economy and Space* 51, no. 1 (2018),

³¹ Fingleton, "Housing Supply, Housing Demand, and Affordability."

³² Nygaard et al., "Filtering as a source of low-income housing in Australia: conceptualisation and testing," Australian Housing and Urban Research Institute Limited (2022); Anenberg and Kung, "Can more housing supply solve the affordability crisis? Evidence from a neighborhood choice model."

with demand-side policies designed to stimulate local economies in disadvantaged neighbourhoods³³. This increases the supply of space capable of meeting increasing demand, including through an abundance of established stock. Soltani et al.³⁴ predict the most affordable urban spatial structure for Adelaide based on machine learning from 32 years of sales transactions. The results suggest that direct improvements to the built environment quality and access to services across a polycentric city, coupled with targeted intervention into affordable housing in high demand locations, would create an equitable distribution of demand, and thus minimise housing costs.

Not only does creating a wider variety of desirable sub-markets improve the affordability of new dwelling stock, but it also offers substantial increases in the overall rate of new supply. The Letwin review³⁵ found that:

"If either the major house builders themselves, or others, were to offer much more housing of varying types, designs and tenures including a high proportion of affordable housing, and if more distinctive settings, landscapes and streetscapes were provided on the large sites, and if the resulting variety matched appropriately the differing desires and financial capacities of the people wanting to live in each area of high housing demand, then the overall absorption rates – and hence the overall build out rates – could be substantially accelerated."

The solution, therefore, was to increase the number of competitive sub-markets across a city by planning for more diverse, quality housing that caters to a wider diversity of people, and in different geographic locations with different employment opportunities and amenities. This means that developers have fewer competitors offering homogenous products, allowing housing to be profitable without drip-feeding and providing meaningful choice.

If the private sector is to deliver affordable housing in any capacity, an effective supply response means reversing the trends that have not been working. Melbourne's development intensity is driven by perpetually growing demand in prosperous inner-city suburbs, where our planning system asks developers to squeeze apartment buildings into lots originally subdivided to fit small single-family dwellings. Meanwhile, decades of place-making by deregulation have had little success creating viable infill opportunities on vast supplies of permissively zoned, transit-oriented, middle-ring land³⁶. No Australian government can promise well-located and affordable housing based on good faith expectations for a flood of market stock in the privileged locations people already desire, but they can unlock supply by making more places people want to live in. This calls for bold thinking and inclusive, community-oriented planning, driven by genuine collaboration between all of government and the private sector.

³³ Glen Bramley and Chris Leishman, "Planning and Housing Supply in Two-speed Britain: Modelling Local Market Outcomes," *Urban Studies* 42, no. 12 (2005).

³⁴ Ali Soltani et al., "Housing price prediction incorporating spatio-temporal dependency into machine learning algorithms," *Cities* 131 (2022)

³⁵ Oliver Letwin, "Independent review of build out" (2018)

³⁶ Chris De Gruyter, Steve Pemberton, and Eric Keys, "Tracking the development of apartment housing activity against public transport service provision in Melbourne: 2004-2022," (2024).

In addition, a market-driven response that depends on market cycles offers no promise of stable, affordable housing for those who are least advantaged. Intervention is required if housing is to be accessible throughout all market cycles, and to ensure new supply is the right supply.

Can targets help?

Community planning is an ecosystem of important community-building decisions, including open space, employment, key transport infrastructure, and social and health facilities. There is a significant risk that a performance measure dependent on market cycles can result in ‘viability’ planning, where bleak demand during local downcycles means that important social and environmental objectives are seen as barriers to progress³⁷. The formation of target numbers, and identification of developable land, should be place-sensitive, considerate of the existing infrastructure capacity, and designed to maximise net benefits for both future and existing residents.

In England, the *Barker Review of Housing* (2004) triggered a wave of ‘viability’ planning in an effort to increase market supply. Broad geographic housing targets in London directed investor confidence away from communities in need of more housing, and towards viable development land with little public value³⁸. Owing to a lack of coordination between existing urban structures and viable regeneration sites, poorly planned housing developments further compromised the overall cost of infrastructure and the availability of commercial land³⁹. Similar outcomes were evident in the Milton Keynes and South Midlands region, where housing delivery targets offered a bold strategic vision that was otherwise absent in the region, but failed to discourage developers from banking developable land in speculation of future growth⁴⁰. Thus, there is little evidence that long-term housing targets can be implemented within planning systems given their dependence on macroeconomic conditions, which can lead to significant compromises on the quality of urban places in times of weak economic growth.

Housing targets are likely to be successful where they specifically target the inclusion of affordable housing⁴¹. ‘Right supply’ targets, such as those implemented in Vancouver⁴² can directly provide affordable housing by capturing private development value through pre-

³⁷ Mike Raco et al., "Towards a virtual statecraft: Housing targets and the governance of urban housing markets," *Progress in Planning* 166 (2022); Jessica Ferm and Mike Raco, "Viability Planning, Value Capture and the Geographies of Market-Led Planning Reform in England," *Planning Theory & Practice* 21, no. 2 (2020),

³⁸ Mike Raco et al., "Towards a virtual statecraft: Housing targets and the governance of urban housing markets," *Progress in Planning* 166 (2022)

³⁹ Jessica Ferm and Mike Raco, "Viability Planning, Value Capture and the Geographies of Market-Led Planning Reform in England," *Planning Theory & Practice* 21, no. 2 (2020).

⁴⁰ Allan Cochrane, Bob Colenutt, and Martin Field, "Developing a sub-regional growth strategy: Reflections on recent English experience," *Local Economy* 28, no. 7-8 (2013)

⁴¹ Catherine Gilbert, Nicole Gurrán, and Peter Phibbs, "Targets for Affordable Housing: Supporting Equitable and Sustainable Urban Growth," in *Instruments of Planning : Tensions and challenges for more equitable and sustainable cities*, ed. Rebecca Leshinsky and Crystal Legacy (Milton, United Kingdom: Taylor & Francis Group, 2015).

⁴² Matthew Palm and Carolyn Whitzman, "Housing need assessments in San Francisco, Vancouver, and Melbourne: normative science or neoliberal alchemy?," *Housing Studies* 35, no. 5 (2020).

determined, quantitatively defined, affordable housing contributions. The housing targets should then reflect a diligent evidence base of unmet housing need, and can support an efficient delivery of affordable housing with the same construction resources.

However, right supply targets are only beneficial where they are enforceable. In Bern, strictly enforceable targets for one-third cost-rent housing, backed by a local democratically accountable mandate, allowed the Canton to oversee the implementation of their affordable housing target⁴³. In contrast a lack of regulatory teeth in the Netherlands meant that social housing contribution requirements were negotiated down during low markets, with approved development rights then 'warehoused' and sold on for a capital gain when the market improved⁴⁴.

Thus, targets that demand a quick approval timeframe can merely serve to compromise important qualitative objectives, especially given that developers may respond rationally to a slowing market by withholding development rights until construction is viable⁴⁵. The housing strategy needs to clearly address how councils can implement and shape local targets for both housing and support provision. Punitive measures may needlessly hurt communities based on economic factors outside of their control.

The housing targets also imply rapid densification and change within Melbourne's existing urban areas. However, it is important to recognise that cities naturally densify at slow rates. Moos⁴⁶ identifies that Toronto's ambitious transit oriented density targets would take between 34 and 95 years even if construction was confined exclusively to established areas. Thus, absent significant changes in the Australia's typological preferences for housing, geographically broad housing targets are likely to result in significant demand for infrastructure across the wider city, with limited capacity to improve efficiency at scale. Planning therefore plays an increasingly important role in coordinating space to be set aside for social infrastructure and public facilities⁴⁷. As heightened demand for infrastructure raises construction costs on aggregate, the delivery of affordable housing is conditional on careful and clear planning of who is responsible for the funding and delivery of infrastructure⁴⁸.

Implementation and feasibility

Councils are acutely aware of how housing accessibility affects their local communities. Many create their own affordability targets, purchase and maintain housing for people based on

⁴³ Josje Bouwmeester et al., "Making room for affordable housing: Project-based negotiations between planning authorities and landowners in Dutch and Swiss densification," *Land Use Policy* 144 (2024).

⁴⁴ Bouwmeester et al., "Making room for affordable housing: Project-based negotiations between planning authorities and landowners in Dutch and Swiss densification."

⁴⁵ Arend Jonkman, Rick Meijer, and Thomas Hartmann, "Land for housing: Quantitative targets and qualitative ambitions in Dutch housing development," *Land Use Policy* 114 (2022).

⁴⁶ Markus Moos, "The Velocity of Density: Can We Build More Sustainable Cities Fast Enough?," *Sustainability* 9, no. 12 (2017).

⁴⁷ Jan Whittington, Dian Prasetyawati, and Chin-Wei Chen, "Chapter 19: The role of urban and regional planning in the provision of social infrastructure," in *Handbook of Social Infrastructure: Conceptual and Empirical Research Perspectives*, ed. Handbook of Social Infrastructure (Cheltenham, UK: Edward Elgar Publishing, 2024).

⁴⁸ Jon Kellett and Nick Nunnington, "Infrastructure for new Australian housing: Who pays and how?," *Cities* 92 (2019).

need, and bear the cost of housing key workers necessary to ensure the sustainability of their communities⁴⁹. However, councils face significant constraints in achieving the changes necessary to improve housing opportunities for their local communities. A recent survey of 130 local governments found that insufficient infrastructure funding, a lack of control over market decisions, unclear responsibilities, and poor collaboration with state government remained key barriers to implementing local housing objectives⁵⁰.

Unimproved land value taxes are a potential lever to discourage speculation, although for household investors the presence of negative gearing moderates their impact as any additional tax burden can be claimed as a deduction against other income. Furthermore, the quantum of council rating makes it difficult for differential rating alone to counteract the gains developers accrue in restricting supply. It is likely that a state-levied tax on developable land would be required to provide enough disincentive to affect land-banking behaviour.

More ambitious solutions would involve the use of intervention to decouple the speculative value of land from the use that operates within it. By using land as public resource, rather than a source of capital appreciation, the bulk of development intensity would be directed towards improving the responsiveness of supply. In Bern, a vast public land holding allows the government to deliver affordable housing by staging the release of profitable development opportunities, while public negotiating leverage allows development to achieve public good outcomes⁵¹. Long-term ground leases allow capital gains from development rights to be contingent on the timely delivery of housing, and the strategic use of pre-emption rights can unlock underutilised land by discouraging speculative withholdings⁵². Community land trusts⁵³ and community land banks⁵⁴ can allow for significant precinct-scale land uplifts that maximise the use value of land, benefiting residents by providing the housing and facilities that are needed.

The Letwin review⁵⁵ found the solution to slow build-out rates to lie in reducing speculative land values and prescribing clear outcomes in favour of diverse housing types, tenures and prices. The lowering of land values would be supported by giving local authorities recourse to use compulsory purchase powers in the event of a slow build-out. The development would be stimulated by the coordination of new key infrastructure investments such as schools and health care, to be delivered through collaborative master planning arrangements between different levels of government. The scheme also envisaged granting new powers to councils to establish public land assembly funds and purchase undeveloped land, therefore

⁴⁹ Andrew Beer et al., "Housing locally: a report on the Local Government and Housing Linkage Project national survey," (2018).

⁵⁰ Australian Local Government Association, "Addressing the housing crisis: Accelerating local government's contribution," (2024).

⁵¹ Bouwmeester et al., "Making room for affordable housing: Project-based negotiations between planning authorities and landowners in Dutch and Swiss densification."

⁵² Gabriela Debrunner and Thomas Hartmann, "Strategic use of land policy instruments for affordable housing – Coping with social challenges under scarce land conditions in Swiss cities," *Land Use Policy* 99 (2020)

⁵³ Louise Crabtree, "Community Land Trusts and Indigenous Housing in Australia—Exploring Difference-Based Policy and Appropriate Housing," *Housing Studies* 29, no. 6 (2014),

⁵⁴ Shann Turnbull, "Democratizing the wealth of cities: self-financing urban development," *Environment and Urbanization* 29, no. 1 (2017).

⁵⁵ Oliver Letwin, "Independent review of build out" (2018).

coordinating the release of the housing at the right times. However, with changing political landscapes, the model proposed by the review has yet to be implemented at scale.

Increasing development in areas of existing high demand is unlikely to improve affordability for those on lower incomes. Rodríguez-Pose and Storper⁵⁶ note that blanket upzoning principally serves high income earners by transferring skilled workers from less prosperous to more prosperous areas, and this comes at the expense of place-based policies that improve the liveability of disadvantaged regions. Given this, land use planning may instead improve housing accessibility by coordinating land improvements in areas of disadvantage, thereby improving affordability by increasing the substitutability of neighbourhoods.

This requires a place-sensitive and community-oriented approach, particularly in regional areas facing very diverse housing challenges. Beer et al.⁵⁷ describe how regional communities are vulnerable to rapid changes in migration patterns, a lack of housing diversity, and a shortage of resources to deliver housing for those on low incomes. In this context, direct government investment in social housing, strategic planning, and place-based policy making, is likely to be more effective than market-dependent housing targets.

Another key challenge is providing housing for key workers. Bringing key workers to regions with skills shortages would assist with the delivery of social services in vulnerable communities, deliver resources to produce more goods, and promote general economic prosperity. In the UK, a key worker housing program in the early 2000s offered a means to address skills shortages in areas with declining economic prosperity, and where housing stock and diversity was unlikely to be otherwise delivered⁵⁸. However, a lack of localised knowledge made it difficult for central government to allocate funds for those areas most in need. Local councils can play a key role in identifying the key worker needs of different communities, including in the public service, construction and medical sectors.

To ensure the supply of housing better meets the demand, all three tiers of government, working with the private and not-for-profits will need to play a role. Fragmented local approaches driven by a top-down mandate risks creating uncertainty for investors, and poor land use coordination at regional levels⁵⁹. Beer et al⁶⁰ surveyed over 200 local governments in Australia, who expressed an acute awareness about housing affordability unique to their local communities, but a lack of resources and state or federal government commitment with which to increase affordable housing supply. In Europe, affordable housing policies have witnessed

⁵⁶ Andrés Rodríguez-Pose and Michael Storper, "Housing, urban growth and inequalities: The limits to deregulation and upzoning in reducing economic and spatial inequality," *Urban Studies* 57, no. 2 (2020).

⁵⁷ Andrew Beer et al., *Disruption in regional housing: Policy responses for more resilient markets*, Australian Housing and Urban Research Institute (2024).

⁵⁸ Mike Raco, "Key Worker Housing, Welfare Reform and the New Spatial Policy in England," *Regional Studies* 42, no. 5 (2008).

⁵⁹ Tuna Taşan-Kok, Andre Legarza, and Sara Özogul, "Governing regional affordability: rethinking the production of affordable spaces across the Metropolitan Region Amsterdam (MRA)," *Regional Studies* 57, no. 9 (2023).

⁶⁰ Andrew Beer et al., "Housing locally: a report on the Local Government and Housing Linkage Project national survey," (2018).

success at times where affordable housing was funded by central government and delivered directly by well-resourced local governments⁶¹.

Whitzman⁶² documents a series of ‘tap turners’ and ‘game changers’ in the delivery of affordable housing in Vancouver, Portland and Toronto. In Vancouver, a series of ‘game changers’ led to a ‘Stonehenge’ moment in 2017, when federal, provincial and local government policy became aligned for the first time. Partnerships between co-operative housing providers, banking institutions and government led to scalable production of affordable housing. This in turn has enabled a broader cultural shift towards taxing speculative investments and improving affordable housing delivery.

Infrastructure and services

Both state and local governments play a critical role in coordinating the delivery of key infrastructure. The viability of housing development is likely to be compromised if there is a significant increase in demand for infrastructure, which is to be expected with a significant increase in construction⁶³. Offsite infrastructure such as road junctions, electric substations, emergency services and community facilities can be difficult to fund through incremental development approvals, meaning greater coordination to deliver the necessary upgrades at scale would be critical to making housing development viable.

This raises considerable challenges for councils, who currently face a significant lack of funding for infrastructure. Only 5% of survey respondents receive revenues from developer contributions and infrastructure grants that can cover their annual expenses for trunk infrastructure⁶⁴. Substantial changes in the delivery of infrastructure are critical to delivering the housing targets.

Funding for infrastructure can come from capturing land value uplift, additional tax revenues, and tax increment financing. Upzoning has the effect of creating an inequitable distribution of property rights by giving away public air rights, which is then capitalised into higher land values without promising immediate development⁶⁵. Windfall gains taxes, selling upzoning rights at market prices, public land purchase, and strict development expiry provisions can ensure this value is captured by the community, rather than stalling development. Building a public land bank through assembling undeveloped land parcels, upgrading infrastructure, and then controlling the release of land can promote a faster delivery of housing supply concurrent with infrastructure⁶⁶.

⁶¹ Darinka Czischke and Gerard van Bortel, "An exploration of concepts and policies on 'affordable housing' in England, Italy, Poland and The Netherlands," *Journal of Housing and the Built Environment* 38, no. 1 (2023).

⁶² Carolyn Whitzman, "Tap Turners and Game Changers: Lessons for Melbourne, Victoria and Australia from Affordable Housing Systems in Vancouver, Portland and Toronto," ed. Melbourne School of Design Transforming Housing, University of Melbourne (2018).

⁶³ Kellett and Nunnington, "Infrastructure for new Australian housing: Who pays and how?."

⁶⁴ Australian Local Government Association, "Addressing the housing crisis: Accelerating local government's contribution" (2024).

⁶⁵ Cameron K. Murray and Joshua C. Gordon, "Land as Airspace: How Rezoning Privatizes Public Space (and Why Governments Should Not Give It Away for Free)," *Housing Policy Debate* 34, no. 2 (2024).

⁶⁶ Sarah Monk et al., *International review of land supply and planning systems* (Joseph Rowntree Foundation York, 2013).

Capturing the value of development, and reinvesting in infrastructure, is critical to ensuring the benefits of development are captured by the wider community, rather than existing landowners. This requires removing the option value of holding land undeveloped, ensuring that development and infrastructure are carried out concurrently. Gallent et al⁶⁷ provide a series of global case studies on the delivery of infrastructure to support housing growth. Historically, Australian state government development agencies have undertaken land assembly and additional infrastructure requirements on key lots, a strategy akin to active planning policies in the Netherlands. In New South Wales, voluntary planning agreements are used to create certainty about the timing of infrastructure delivery. Internationally, other mechanisms of delivering infrastructure include:

- Legislation that requires landowners to pay up to 90% of infrastructure costs.
- A building claims model in the Netherlands, which allows property developers to voluntarily sell land to the municipality, who then service the land with infrastructure and re-sell to the developer.
- Establishing joint ventures between the government and private developer, allowing for the municipality to benefit from shares that can then be re-invested back into the community.
- Using contractual (Section 173) agreements at the planning stage to freeze land prices at the pre-development level by imposing a consequence of compulsory acquisition if development is not completed.
- Imposing planning conditions that require the developer to complete the plan within a certain time period.

Role of local government planning in delivering housing supply

Planning systems play an important economic role in overcoming transaction costs associated with negotiating different urban land uses⁶⁸. For example, a zoning system that creates certainty about what neighbouring land uses can be expected in the future removes an information discount from the value of the land and allows intensification to occur at an optimum level. For example, McMillen and McDonald⁶⁹, found that Chicago's residential zoning ordinance raised aggregate land values, and hence development intensity, by creating insurance against the intrusion of unwanted land uses. In New York City, historic designations in areas with healthy capacities for future densities depressed local house prices by improving the viability of intensification⁷⁰, but resulted in higher local prices in areas with less zoned capacity and high demand. In dense cities, where unwanted land uses can have depressing

⁶⁷ Nick Gallent et al., "International experience of public infrastructure delivery in support of housing growth," *Cities* 107 (2020).

⁶⁸ Ronald Coase, "The problem of social cost," *Journal of Law and Economics* 3 (1960).

⁶⁹ Daniel P. McMillen and John F. McDonald, "Land Values in a Newly Zoned City," *The Review of Economics and Statistics* 84, no. 1 (2002).

⁷⁰ Vicki Been et al., "Preserving history or restricting development? The heterogeneous effects of historic districts on local housing markets in New York City," *Journal of Urban Economics* 92 (2016).

effects on a significant number of properties, land use intensification is more likely to occur at a socially optimal level where communities hold rights over development⁷¹.

Poorly defined planning systems also create uncertain future options over land, which can result in higher land costs and less development. Where developers can 'push the boundaries' by obtaining permission for densities that go against municipal expectations, such as through negotiable density limits and the opportunity to overturn decisions by appeal, planning permits can work to encourage land banking and limit the construction of housing stock⁷².

Our current regulatory planning system housing faces real risks of over-allocating development rights, and their associated capital gains, well before they are acted upon. High land values signal that land is ready for intensification, but if development rights are accrued pre-emptively, the planning system only incentivises the warehousing of permits and banking of land as a profitable and inflationary alternative to construction. The delay of housing starts after permits have been issued is well documented in Melbourne⁷³. More dire consequences are evident in the Flanders case study, where an oversupply of land led to no tangible construction outcomes, and an inability to control rapid urban sprawl⁷⁴. In Luxembourg, a facilitative planning regime enabled monopolistic control over the supply of land for housing, with little scope for public agencies to coordinate land use change⁷⁵.

On the other hand, planning has the capacity to improve residential land values by creating certainty over the pace of development, improving aggregate land values by improving amenity and controlling land use externalities, and by capturing the value of improvements to provide a public good. For the private market, this means decoupling the future income potential of a site from the volatility of the wider market, such that new construction is incentivised in spite of the absorption rate⁷⁶. For example, Shahab and Viallon⁷⁷ show how land improvement syndicates in Switzerland allow landowners to collectively fund and negotiate residential improvements, including the provision of social infrastructure, through local democratic processes.

Affordable housing can be delivered in the land use planning system by negotiating below-rent dwellings in private development approvals. Inclusionary zoning is a useful tool for mandating the inclusion of affordable housing where it is needed, but requires careful implementation in order to be effective. For example, when inclusionary housing in London was expanded to apply to all developments of ten or more units, the market responded by

⁷¹ Chris Webster and Fulong Wu, "Coase, Spatial Pricing and Self-organising Cities," *Urban Studies* 38, no. 11 (2001).

⁷² Nick Gallent, Claudio de Magalhaes, and Sonia Freire Trigo, "Is Zoning the Solution to the UK Housing Crisis?," *Planning Practice & Research* 36, no. 1 (2021).

⁷³ Ian Woodcock et al., "Speculation and Resistance: Constraints on Compact City Policy Implementation in Melbourne," *Urban Policy and Research* 29, no. 4 (2011).

⁷⁴ Peter Lacoere and Hans Leinfelder, "Land oversupply. How rigid land-use planning and legal certainty hinder new policy for Flanders," *European Planning Studies* 31, no. 9 (2023).

⁷⁵ Antoine Paccoud et al., "Land and the housing affordability crisis: landowner and developer strategies in Luxembourg's facilitative planning context," *Housing Studies* 37, no. 10 (2022).

⁷⁶ Letwin, Oliver, "Independent review of build out" (2018).

⁷⁷ Sina Shahab and François-Xavier Viallon, "Swiss land improvement syndicates: 'Impure' Coasian solutions?," *Planning Theory* 20, no. 1 (2020)

constructing the same number of dwellings, but redistributed among more developments with fewer than ten units⁷⁸. The wide variety of viable development sites therefore meant that the program was only modestly successful in creating more affordable housing units.

Schuetz et al⁷⁹ find mixed effects of an inclusionary zoning program in Boston and San Francisco. In San Francisco, inclusionary zoning became more effective over time, and generated more affordable units where zoning was more stringent. By using mandatory ordinances and applying the tool to all residential development, inclusionary zoning amounted to 2-3 per cent of housing stock being constructed as affordable housing. In Boston, the program was less established and more weakly applied to select locations, structure types, or as part of cluster zoning, resulting in only 22% of municipalities reporting the construction of affordable units. The results suggest that less development certainty in Boston constrained supply and potentially led to higher prices. While the study shows a link between inclusionary planning and price changes, particularly in Boston, the study does not identify impacts on overall housing affordability. As Whitehead⁸⁰ notes, inclusionary planning mechanisms may trade-off maximum housing production in favour of creating more affordable housing for those in need.

Gurran and Bramley⁸¹ describe the enabling conditions for inclusionary housing to generate more affordable dwelling units, rather than just redistributing development to less optimal locations. Specifically, inclusionary zoning is more likely to be successful in areas of high demand, with the added benefit of making housing more accessible in job-rich locations. However, to be successful, the planning system needs to deflate speculative land values by creating clear and certain development outcomes. Planning systems that allow for stronger municipal discretion, limit the accrual of pre-existing development rights, have clearly defined mandatory inclusionary planning outcomes, and limit the extent to which decisions can be overturned, would therefore allow for greater success.

In addition, inclusionary zoning is also more likely to be successful where land is in public ownership. On the other hand, inclusionary zoning may be less successful in areas with lower demand and where affordable housing is already being produced by the market. In this case, careful planning and design intervention is needed to ensure this does not result in sub-standard housing.

Housing diversity

As it is conceived in the literature, housing diversity is important for catering to the housing needs of the existing population in a local area, and for providing a mix of housing types in neighbourhoods that are desired by migrants due to local opportunities and amenities. It is

⁷⁸ Fei Li and Zhan Guo, "How Does an Expansion of Mandatory Inclusionary Housing Affect Housing Supply?," *Journal of the American Planning Association* 88, no. 1 (2022).

⁷⁹ Jenny Schuetz, Rachel Meltzer, and Vicki Been, "Silver Bullet or Trojan Horse? The Effects of Inclusionary Zoning on Local Housing Markets in the United States," *Urban Studies* 48, no. 2 (2010).

⁸⁰ Christine M. E. Whitehead, "Planning Policies and Affordable Housing: England as a Successful Case Study?," *Housing Studies* 22, no. 1 (2007).

⁸¹ Nicole Gurran and Glen Bramley, *Urban Planning and the Housing Market : International Perspectives for Policy and Practice* (London, United Kingdom: Palgrave Macmillan UK, 2017).

therefore important to understand how housing diversity is delivered under existing market conditions. Ong et al⁸² and Rowley et al⁸³ review current supply patterns in Australia and find that, despite housing being constructed at a faster rate than current population growth, most housing was being delivered in the mid-high income sectors and in the same locations as population growth. There is little evidence of filtering effects in these locations, meaning there is a lack of housing diversity for lower income groups in areas of growth.

This raises a question over whether market-led housing targets are capable of addressing the housing diversity needs of local communities. Gilbert Gurrán and Phibbs⁸⁴ analyse the application of numeric housing supply targets within planning tools in Greater London, San Francisco, South Australia and the Australian Capital Territory. They find that targets only achieved some degree of success where housing outcomes were differentiated by affordability or tenure. Affordability and tenure targets, however, should not be spatially indiscriminate. Existing market conditions in Australia generally reveal an underlying tension between providing a diversity of housing in areas that are broadly desired by the community, and for providing housing that meets the needs of communities that otherwise suffer from a lack of investment. Furthermore, as the remaining body of literature shows, housing diversity has different meanings for different neighbourhoods.

Planning policies can also influence the density of housing development across a city, and this may have implications for the delivery of housing diversity. Paulsen⁸⁵ studies housing unit diversity in the United States, and finds a shortfall in single bedroom units despite growth in the number of multi-family buildings. Similarly, Aurand⁸⁶ found that Portland's densification strategy provided more opportunity for diverse housing types than Seattle's lower-density planning, but that planning tools required more spatially targeted measures to ensure that this was delivered. McMillan and Lee's⁸⁷ study of 202 metropolitan areas in the United States found that density measures created diverse housing types, but that limited diversity was offered in areas accessible to vulnerable communities. Thus, density is necessary, but not sufficient, for delivering housing diversity in infill locations.

Diverse tenure, including a mix of private ownership, public rental, private rental, and cooperative housing, is important for catering to the needs of diverse income groups. However, as theorised by the Schelling model, market conditions often sort communities into homogenous neighbourhoods of high income and low-income groups beyond a 'tipping

⁸² R. Ong et al., *Housing supply responsiveness in Australia: distribution, drivers and institutional settings*, Australian Housing and Urban Research Institute Limited (Melbourne, 2017).

⁸³ Steven Rowley et al., *The new normal: changed patterns of dwelling demand and supply*, Australian Housing and Urban Research Institute (2023).

⁸⁴ Gilbert, Gurrán, and Phibbs, "Targets for Affordable Housing: Supporting Equitable and Sustainable Urban Growth."

⁸⁵ Kurt Paulsen, "The evolution of suburban relative housing-unit diversity," *Housing Policy Debate* 22, no. 3 (2012).

⁸⁶ Andrew Aurand, "Density, Housing Types and Mixed Land Use: Smart Tools for Affordable Housing?," *Urban Studies* 47, no. 5 (2010).

⁸⁷ Andrew McMillan and Sugie Lee, "Smart growth characteristics and the spatial pattern of multifamily housing in US metropolitan areas," *Urban Studies* 54, no. 15 (2016).

point'. Andersson, Wimark and Malmberg⁸⁸ test this idea by reviewing the degree of overlap between tenure and socio-economic mix in Sweden. They find that, in some instances, tenure, income and ethnicities were sorted into broad homogenous groups. However, they also identify that some larger areas where housing tenure and social mixes were heterogenous. This suggests some success in creating diverse housing in the locations desired by the community, though this can likely be explained by Sweden's history of creating an 'integrated rental market' system and direct government development of public housing.

However, this finding does not, in itself, suggest that heterogenous tenure within a neighbourhood should be seen as a solution to underlying structural inequalities. On the one hand, native Norwegians in the Oslo region were more inclined to migrate out of neighbourhoods with a high share of ethnic minorities⁸⁹, suggesting potential social benefits for increasing social and rental tenures. On the other hand, the spatial proximity of diverse tenures alone may not lead to better social outcomes⁹⁰. Instead, neighbourhood effects are driven largely by environmental factors, varied levels of accessibility, and institutional processes involving space-based stigmatisation⁹¹. Thus, the heterogenous characteristics of neighbourhood residents should be accounted for when prescribing residential zoning outcomes⁹², but this should be accompanied by strategic place-based policies designed to support broader community prosperity.

One example of the importance of a holistic community-led approach to addressing housing concerns is evidenced by ageing populations. Aged communities often prefer to 'age in place,' and therefore benefit from diverse tenure options in their local neighbourhoods. Lux and Sunega⁹³ evaluate housing tenure options for the elderly across eight European countries. They find that the social democratic countries that delivered a higher portion of public and social rentals, namely Austria and Germany, also provided targeted assistance for ageing populations in the form of rent control subsidies, age-appropriate housing conversions, and technology assisted housing. Thus, it is important that housing options for the elderly be spatially targeted, diverse in tenure, and supported by direct assistance measures that allow for dignity as they age in place.

⁸⁸ Eva K. Andersson, Thomas Wimark, and Bo Malmberg, "Tenure type mixing and segregation," *Housing Studies* 37, no. 1 (2022).

⁸⁹ Terje Wessel and Viggo Nordvik, "Mixed neighbourhoods and native out-mobility in the Oslo region: The importance of parenthood," *Urban Studies* 56, no. 5 (2018).

⁹⁰ Maarten van Ham and David Manley, "The effect of neighbourhood housing tenure mix on labour market outcomes: a longitudinal investigation of neighbourhood effects," *Journal of Economic Geography* 10, no. 2 (2010).

⁹¹ George C. Galster, "The Mechanism(s) of Neighbourhood Effects: Theory, Evidence, and Policy Implications," in *Neighbourhood Effects Research: New Perspectives*, ed. Maarten van Ham et al. (Dordrecht: Springer Netherlands, 2012).

⁹² Wessel and Nordvik, "Mixed neighbourhoods and native out-mobility in the Oslo region: The importance of parenthood."

⁹³ Martin Lux and Petr Sunega, "The impact of housing tenure in supporting ageing in place: exploring the links between housing systems and housing options for the elderly," *International Journal of Housing Policy* 14, no. 1 (2014).

There is also a risk that indiscriminate housing delivery targets would fail to account for the housing needs of diverse populations in regional areas. Beer et al.⁹⁴ conducted a comprehensive review of regional housing trends and identified the unique challenges in delivering housing that responded to the needs of local populations. They find that regional communities were especially vulnerable to fluctuations in migration patterns and broader macroeconomic conditions, as well as a lack of access to construction resources. It is unlikely that market demand will follow the supply needs of many communities, particularly where those most vulnerable to the housing shortage rely on social and low-income rentals. Housing diversity is also required to incentivise key workers to areas with limited housing opportunities, but in greater need for social services⁹⁵. Given that the Victorian housing targets are based on the “demonstrated development potential in established regional cities in Victoria”, there is a significant risk that the targets will fail to account for housing needs in declining localities, where existing residents could risk unwanted displacement in the absence of new housing.

It is also critical that housing targets do not result in poorly designed housing, especially where this may entrench disadvantage in areas of low housing demand. In addition, diverse neighbourhoods with high quality streetscapes can improve the rate and accessibility of new supply by facilitating a series of different sub-markets, ensuring developments are not delayed by the absorption rate of homogenous housing products⁹⁶. Carmona et al.⁹⁷ conducted an audit of 142 large-scale housing-led development projects across England. They found that the overwhelming majority of new homes were ‘mediocre’ or ‘poor’, and that one in five should have been refused. Common design issues included poor character, sense of place, limited social interaction, and dominant car parking and vehicle structures.

The audit also found that sub-standard design outcomes were common in rural and less affluent areas. This was despite there being no clear link between well-designed housing and market value. Such an outcome is therefore likely to result in an inequitable wealth distribution through the construction of new housing, while simultaneously hindering the overall rate of production. The audit suggested that it was critical for local authorities to provide clear design aspirations in planning schemes, and then have the opportunity to refuse those schemes that do not meet the standards.

Public and social housing

In Victoria, a lack of available housing is a deep-seated structural issue with the most punishing and permanent effects felt by those who are most disadvantaged. Not only do those on the lowest incomes face a rental market priced for those on the opposing side of a widening wealth gap⁹⁸, but some of the state’s most vulnerable grapple with particularly acute challenges. This includes residents of many remote towns, who are both more vulnerable to

⁹⁴ Beer et al., *Disruption in regional housing: Policy responses for more resilient markets*.

⁹⁵ Raco, "Key Worker Housing, Welfare Reform and the New Spatial Policy in England."

⁹⁶ Oliver Letwin, "Independent review of build out," (2018).

⁹⁷ Matthew Carmona, V Giordano, and A Alwarea, "A housing design audit for England," (2020).

⁹⁸ Kath Hulse et al., *The supply of affordable private rental housing in Australian cities: short-term and longer-term changes*, Australian Housing and Urban Research Institute Limited (2019).

homelessness and beholden to local markets with chronic underinvestment⁹⁹, 18-year-olds leaving out-of-home care, who are expected to live independently while receiving inadequate public service supports to avoid rough sleeping¹⁰⁰, and the elderly, who experience increasingly precarious housing¹⁰¹ and are offered few living options that can support ageing in place¹⁰². At their core, efforts to improve housing affordability ought to address the underlying structural barriers that entrench existing social and spatial inequalities by limiting access to basic shelter.

In improving housing justice outcomes, government plays a critical role by improving the delivery of public and social housing. Wetzstein¹⁰³ argues, however, that an overreliance on market delivery, and neglect for the role of land in generating capital gains, has paralleled a reduction in collaborative governance. Thinking of public and social housing as a 'social infrastructure' would bring a significant important shift in policy mindsets about the role and importance of public and social housing in creating diverse, resilient and just housing outcomes for all. Research has clearly demonstrated that the most cost-effective method for delivering on that important role is direct capital investment by governments¹⁰⁴.

Palm et al.¹⁰⁵ identified a deficit of 164,000 affordable units for low-income households in Victoria. They also identify an inventory of over 250 publicly owned sites as suitable to provide up to 30,000 social and affordable homes. They find that these could be delivered through 'cobbling' funding sources, using ground leases to allow delivery from social housing providers, refurbishing land above council car parks and other public infrastructure, and establishing land as a community trust. Public land also benefits from its proximity to services in need of key workers, such as hospitals.

Using public land for house building is not without its challenges. These include overcoming pressures for governments to sell public land, ensuring public money is used efficiently, balancing planning and financial goals, ensuring development quality meets public expectations, and resourcing public authorities to better navigate the dynamics of the private market¹⁰⁶. However, cases such as Hong Kong demonstrate how holding large amounts of land

⁹⁹ Deb Batterham et al., *Estimating the population at-risk of homelessness in small areas*, Australian Housing and Urban Research Institute (Melbourne, 2021).

¹⁰⁰ Robyn Martin et al., *Accommodating transition: improving housing outcomes for young people leaving OHC*, Australian Housing and Urban Research Institute (Melbourne, 2021).

¹⁰¹ Val Colic-Peisker, Rachel Ong, and Gavin Wood, "Asset poverty, precarious housing and ontological security in older age: an Australian case study," *International Journal of Housing Policy* 15, no. 2 (2015).

¹⁰² Hal Kendig et al., "Preferences and Predictors of Aging in Place: Longitudinal Evidence from Melbourne, Australia," *Journal of Housing For the Elderly* 31, no. 3 (2017).

¹⁰³ Steffen Wetzstein, "Toward Affordable Cities? Critically Exploring the Market-Based Housing Supply Policy Proposition," *Housing Policy Debate* 32, no. 3 (2022).

¹⁰⁴ Lawson, J., Pawson, H., Troy, L., van den Nouwelant, R. and Hamilton, C. (2018) *Social housing as infrastructure: an investment pathway*, Australian Housing and Urban Research Institute Limited, Melbourne.

¹⁰⁵ Matthew Palm, Katrina Raynor, and Carolyn Whitzman, *Project 30,000: Producing social and affordable housing on government land* (University of Melbourne, 2018).

¹⁰⁶ Richard J. Dunning, Tom Moore, and Craig Watkins, "The use of public land for house building in England: Understanding the challenges and policy implications," *Land Use Policy* 105 (2021).

in public freehold can allow for more social housing in private leasehold developments, while generating significant improvements to the overall affordability of housing¹⁰⁷.

Governments can also use tax increment financing to fund leasehold redevelopments on public land, such as in Birmingham, United Kingdom, where this strategy allowed the city council retained ownership of 40% of freehold land in the city¹⁰⁸. By holding a significant portion of land, the council has greater influence over the overall development trajectory of the city, while the tax increment financing gives public developers a competitive advantage over private developers.

Housing adequacy, quality and design in a climate changed world

While requiring greater political will, targeting the 'right supply' is an opportunity to align housing need with critical environmental and sustainability objectives. This means protecting residents from environmental hazards and mitigating greenhouse gas emissions in a climate of change.

Stephen and Athanassiadis¹⁰⁹ modelled the embodied energy requirements of the existing building stock in the City of Melbourne, finding it to be equivalent to 100 years of the energy demand of an entire residential suburb. The location, density and size of new housing is also important. A history of low-density sprawling development has rapidly accelerated Melbourne's transport emissions, triggering an urgent need for a shift towards medium density housing near a growing public transport network¹¹⁰.

Rankin and Saxe¹¹¹ modelled the infrastructure and housing emissions requirements associated with Canada's ambitious housing growth targets. If met, the required housing emissions would exceed the country's 2030 emissions reduction target by 437%, compared to 52.1 per cent under current development rates. This would make the country's goal of net zero emissions by 2050 unobtainable. Transformative changes were needed to achieve both targets concurrently, including the near complete elimination of single-family houses, perfect adherence to best-in-class designs, and an infill rate of 100%. Indeed, a more cost-effective solution may come from a 'right supply' target.

Extended Case Study: 65A Power Avenue, Chadstone

The City of Monash has a draft housing target of 72,000 additional dwellings by 2051. In 2016, the zoned housing capacity in the City of Monash exceeded its projected population growth

¹⁰⁷ Rebecca L. H. Chiu, "Planning, Land and Affordable Housing in Hong Kong," *Housing Studies* 22, no. 1 (2007).

¹⁰⁸ John R. Bryson et al., "Urban assets and the financialisation fix: land tenure, renewal and path dependency in the city of Birmingham," *Cambridge Journal of Regions, Economy and Society* 10, no. 3 (2017).

¹⁰⁹ André Stephan and Aristide Athanassiadis, "Quantifying and mapping embodied environmental requirements of urban building stocks," *Building and Environment* 114 (2017).

¹¹⁰ R. J. Fuller and R. H. Crawford, "Impact of past and future residential housing development patterns on energy demand and related emissions," *Journal of Housing and the Built Environment* 26, no. 2 (2011).

¹¹¹ Keagan H. Rankin and Shoshanna Saxe, "A Future Growth Model for Building More Housing and Infrastructure with Less Embodied Greenhouse Gas," *Environmental Science & Technology* 58, no. 25 (2024).

to 2031 by over 70%¹¹². However, also in 2016, the census predicted that 755 people in Monash were recorded as homeless.

Recognising that the solution to homelessness is housing, the *Monash Social Housing Framework 2020-2025* was formed in response to a critical shortage of social and affordable housing in the municipality. The strategy was formed on the back of direct consultation with community members who had experienced homelessness, as well as local housing, emergency relief and community service providers. The council aims for a 'functional zero' approach, which seeks to provide immediate access to housing for every person who needs accommodation.

As part of the strategy, the council intended to create regional-scale and local level partnerships with the State Government, supporting its then announced \$5.3 billion investment into the 'Big Housing Build,' which was announced in 2020 and encouraged councils to find suitable parcels of land to accommodate social housing.

In March 2021, the council identified 65A Power Avenue, Chadstone as being suitable for social housing. The site is large vacant lot in close proximity to Batesford Avenue, Holmesglen Reserve, and within walking distance of two train stations. The land is held by the council under a freehold title.

In February 2023, the council identified HousingFirst, a non-profit social housing provider, as their preferred provider for a social housing project on the site. A preliminary design for the project included 48 units over three levels, comprising 1, 2 and 3 bedroom dwellings, internal and external communal open space, and 52 bike parking spaces. A community consultation process addressed resident concerns through changes to the siting, layout and car parking.

To ensure the land remained in public control, the council was to lease the land to the provider under a 50-year peppercorn leasehold, conditional on the use and development of the land as social housing in accordance with an approved planning permit. The provider sought funding for the program from the Victorian Build and Operate Program and Federal Housing Australia Future Fund streams. However, in the 2023 and 2024 funding rounds released by both governments, most upfront capital grant funding for metropolitan projects had been discontinued, and was instead allocated to regional projects. Instead, the only funding available was in the form of availability payments.

The availability payments funding source, which is paid in increments, requires the housing provider to incur borrowings to cover upfront development costs. This financial liability, combined with rising interest rates and higher construction costs, means that it is no longer financially viable to complete the development under a leasehold arrangement.

Extended Case Study: Scotland

Scotland is a growing country. From 2003 to 2023, the number of households in Scotland grew by 14%, a figure substantially outstripping its aggregate population growth of approximately 7.5% over the same period¹¹³. This is credited largely to an ageing population and a trend

¹¹² SGS Economics and Planning, "Analysis of proposed residential zones," (2016).

¹¹³ NRS, Households and Dwellings in Scotland, 2023, (2023).

towards smaller household sizes¹¹⁴. While a significant proportion of housing in Scotland has traditionally been provided by local councils, broader austerity measures imposed in the United Kingdom have encouraged a transfer of social rent land to private registered social landlords (RSLs)¹¹⁵. With growing housing affordability challenges over the same period, Scotland has been tasked with identifying innovative solutions to delivering housing affordability with a resource-constrained public service¹¹⁶.

Following devolution of the United Kingdom's administrative powers in 1999, the Scottish Government exercises control over a wide range of housing policy levers, including direct spending on social housing, rental regulations, and the land use planning system. This has allowed the country to follow a distinctive policy trajectory, notable for its ambition to facilitate public service delivery broadly consistent with principles described in a 2011 Commission on the Future Delivery of Public Services¹¹⁷; community-led design and delivery, close partnership between public service providers, an emphasis on public expenditure that prevents negative social outcomes, and the integration and sharing of assets between all sectors.

The nation's commitment to delivering housing for the community is reflected by its progressive legislative framework. In contrast to the Victorian zoning system of distributing private development rights in advance of construction, Scotland's planning system is reliant on extensive community collaboration and case-by-case discretionary control over private land use and development. Through the *Community Empowerment (Scotland) Act 2015*, the government is committed to reforming an inequitable land market by giving pre-emptive rights and funding to communities wishing to acquire privately owned land. In addition, the government abolished the United Kingdom's right-to-buy scheme, which allowed private individuals to purchase social housing¹¹⁸, and banned all forms of council house sales in 2016¹¹⁹.

Leading up to the Global Financial Crisis, the Scottish Government sought to address unmet housing need by facilitating inclusionary housing in local planning agreements, providing grants for Council-built social housing, and improving building efficiency. However, following a fall in private building completions between 2008 and 2010, the government shifted their focus away from regulation of market providers and towards short-term counter-cyclical investments into the construction of social and affordable housing¹²⁰. The Scottish government first targeted, and delivered, the building of 30,000 social and affordable units by 2016, with two thirds being socially rented¹²¹.

¹¹⁴ Kenneth Gibb, "Housing policy in Scotland since devolution: divergence, crisis, integration and opportunity," *The Journal of Poverty and Social Justice* 23, no. 1 (2015).

¹¹⁵ Gibb, "Housing policy in Scotland since devolution: divergence, crisis, integration and opportunity."

¹¹⁶ Kenneth Gibb, "Delivering new affordable housing in the age of austerity: housing policy in Scotland," *International Journal of Housing Markets and Analysis* 4, no. 4 (2011).

¹¹⁷ Campbell Christie, "Commission on the Future Delivery of Public Services," (2011).

¹¹⁸ Gibb, "Housing policy in Scotland since devolution: divergence, crisis, integration and opportunity."

¹¹⁹ Ken Gibb and Gareth James, "Housing in Scotland: evidence for Scottish government 2021-26," (2021).

¹²⁰ Gibb, "Delivering new affordable housing in the age of austerity: housing policy in Scotland."

¹²¹ Gibb and James, "Housing in Scotland: evidence for Scottish government 2021-26."

Despite the successful first round of post-GFC targets, a housing needs study conducted in 2015 revealed a deficit of 12,000 affordable homes per annum¹²². This led the Scottish Government to establish the Affordable Housing Supply Programme (AHSP), which aimed to provide 50,000 affordable homes between 2016 and 2021¹²³. 70% of these homes were to be provided by councils and registered social landlords (RSAs) as social rent tenure, and the remaining properties delivered at mid-market rent or as part of shared equity low-cost homeownership schemes.

The scheme was implemented through collaborative partnerships between local authorities and the national government¹²⁴. Local authorities were responsible for preparing a Local Housing Strategy, which established housing supply targets designed to align with their respective development plans, accounting for available land supply, local development constraints, and the productive capacity of local RSAs. In addition, authorities prepared Strategic Housing Investment Plans (SHIPs), which identified and proposed specific projects requiring Scottish Government funding. These would receive 'light touch' reviews by the Scottish government to ensure the projects were consistent with national priorities, before being agreed upon by both parties. Affordable housing was financed by national government grants included within the AHSP, as well as loans that could be taken out as long as the projected rent revenue could support the debt repayments. The SHIPs were considered to be 'live' documents. If local or market circumstances prevented delivery in a local area, the resources would be re-allocated elsewhere in Scotland.

Critical to the success of the program was its ability to adapt to the needs of local communities, in terms of housing type, tenure and other specialised requirements. For example, drawing on the knowledge of local housing, planning, health and social work providers, some authorities identified the need for greater quantities of affordable housing than projected by the national government. Drawing on this knowledge, local authorities also used the funding to provide varied quantities of specialised housing, designed to accommodate the needs of local elderly and disabled populations. Much of this supply was provided through acquisition and refurbishments of the existing dwelling stock.

The collaborative nature of the program allowed a flexible response to local land and housing market conditions. For example, privately provided mid-market rents had greater uptake in areas with competitive real estate markets and stable population growth, while areas vulnerable to fluctuations in the local workforce and internal migration took on greater proportions of social housing stock. Some authorities were also constrained by a lack of available land in the ownership of public authorities or RSLs, consequently requiring longer-term collaborative strategies between providers and other government departments with available land.

¹²² Ryan Powell et al., "Affordable housing need in Scotland," (2015).

¹²³ G Young and T Donohoe, "Review of Strategic Investment Plans for Affordable Housing," *Shelter Scotland* (2018).

¹²⁴ Young and Donohoe, "Review of Strategic Investment Plans for Affordable Housing."

An independent audit of the program's progress in April 2020 identifies a series of successes, challenges and barriers associated with the delivery of the targets¹²⁵. At the time, the targets were on track to be met. This was reportedly achieved by a high degree of collaboration between the national and local governments, along with partnerships with local healthcare and social work providers. The supportive, rather than punitive, nature of the program enabled innovative responses to market changes. For example, councils with shortages of developable land were supported to transition operations from developing new homes to purchasing and refurbishing existing homes for social rent. The availability of subsidies for improved energy efficiency and renewable heating meant that 66 per-cent of new homes achieved a "greener" above-standard level of building efficiency.

The program generated an economic stimulus through its estimated £1.4 billion output per year, and was praised for the creation of local apprenticeships, work placements and jobs by local councils. The direct impacts of the new housing were felt by a high degree of satisfaction among new tenants and the wider community. Tenants were reportedly pleased with the proximity of housing to jobs and services, as well as genuine commitments to placemaking as part of the planning process.

Much of this success is attributable to the country's wider policy commitment to improving the wellbeing of communities; the *Community Empowerment (Scotland) Act 2015* is designed to reduce inequalities by giving communities greater influence over the ownership of land and decisions about future land use and development. The act requires local authorities to create and engage with community planning partnerships, as well as accepting participation requests from community bodies affected by local planning initiatives. As part of the AHSP program, local authorities and registered social landlords used partnerships with future tenants to determine the preferred location, placemaking, and specialist requirements of new homes.

The audit also identified several barriers, and solutions, to the program's continued success. Critical constraints included high up-front costs associated with the delivery of new infrastructure and complicated existing landownership patterns. Infrastructure in Scotland is generally provided through private developer contributions in the form of conditional voluntary agreement negotiated throughout the planning process¹²⁶. However, this has proved insufficient for unlocking sites with particularly high upfront costs and deficient regional infrastructure. A 2016 Housing Infrastructure fund was designed to fund infrastructure for priority sites, but was restricted by strict national eligibility requirements.

Rural areas identified particularly acute challenges in delivering their preferred share of affordable housing. Firstly, the dispersed nature of rural settlements created difficulty in sourcing information about housing needs through national modelling tools, instead requiring resources for councils to carry out community surveys. Secondly, upfront infrastructure costs were especially high in areas with limited access to regional services. A dedicated Rural Housing Fund was established in 2016, and provided opportunities for economic improvements in growing rural councils in critical need of key worker housing. However,

¹²⁵ Audit Scotland, "Affordable housing: The Scottish Government's affordable housing supply target," (2020).

¹²⁶ John Boyle et al., "developer contributions for affordable homes and infrastructure," *Town & Country Planning* (2022).

further work was needed to ensure these funds could be best optimised by poorly resourced rural authorities and community groups.

Local authorities also relied on inclusionary housing planning mechanisms to enable delivery of the market-led affordable housing targets. However, this mechanism was constrained as the location and timing of development was determined by private developers, while negotiations over developer contributions added additional costs and delays. In response, the audit identified a need for further council resourcing to enable effective pre-planning engagement with developers.

Despite delays brought by the COVID-19 pandemic, the Scottish government reported meeting its target of 50,000 dwellings in June 2022¹²⁷. The program saw 62% more affordable dwellings per head delivered than England over the same period¹²⁸ and a significantly greater reduction in unmet housing need¹²⁹. Over the period from 2015 to 2024, private sector rental prices in Scotland have also grown at a slower rate than that of England, shown in Figure 1. The country also has proportionately lower rates of poverty and childhood poverty than the remainder of the United Kingdom, which has been credited largely to the overall availability of social housing¹³⁰.

Newly released targets in 2023 aim to accelerate the trajectory of the previous targets by delivering 110,000 affordable homes by 2032, including 70% provided as social rent. Broader policy reforms are designed to complement the country's focus on addressing community wealth inequality. The *Planning (Scotland) Act 2019* and recently released planning strategy, National Planning Framework 4, aims to overcome previous coordination challenges through an "Infrastructure First" approach that requires all development to mitigate its impacts on the existing infrastructure capacity. With previous targets being hindered by a lack of available land for new housing, the planning strategy places an explicit emphasis on 'community wealth building' by identifying and building community assets to reduce spatial disadvantages.

While the recent supply program has been relatively successful, housing accessibility challenges in Scotland are far from solved. The government has more recently announced a housing emergency, citing a combination of U.K government spending cuts and macroeconomic conditions linked to Brexit as a leading cause¹³¹. However, the program remains an example of how effective, collaborative governance and community-oriented planning can produce meaningful affordability outcomes by focusing on housing access for those most in need.

¹²⁷ Scottish Government, "50,000 affordable homes target reached," (2022). <https://www.gov.scot/news/50-000-affordable-homes-target-reached/>

¹²⁸ Scottish Government, "50,000 affordable homes target reached."

¹²⁹ Gibb and James, "Housing in Scotland: evidence for Scottish government 2021-26."

¹³⁰ Emma Congreve and Jim McCormick, "Poverty in Scotland 2019," *Joseph Rowntree Foundation* (2019).

¹³¹ David Wallace Lockhart, "Scottish government declares national housing emergency," *BBC* (16 May 2024).

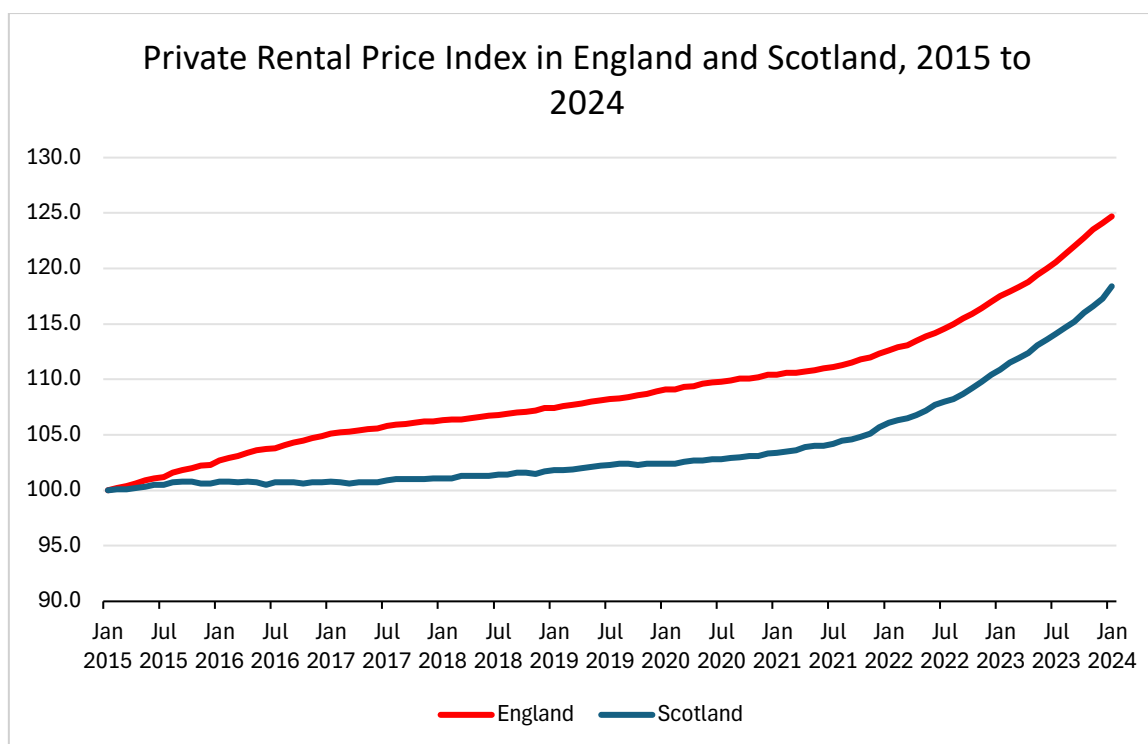


Figure 1: Rental Price Index in England and Scotland. Data Source: Office for National Statistics¹³²

Case Study: England

Approaches to addressing household affordability in England are subject to a markedly divergent trajectory to that of Scotland. In 2004, the *Barker Review of Housing* was published by economist Kate Barker. The review responded to an insufficient supply of housing to meet the needs of the community. The review's headline finding was a need for 120,000 new dwellings per annum, based on the country's population projections until 2021. This was to be provided primarily through a greater use of market indicators to release land, through the planning system, in response to demand side factors. A second review in 2006, the *Barker Review on Land Use Planning*, called for planning to be more market responsive and less complex in an effort to improve housing supply.

The Office of the Deputy Prime Minister commissioned a team of researchers to provide a model that could determine how much extra construction would be needed to improve affordability on a regional basis¹³³. The model drew on evidence on the elasticities of demand, household formation, earnings and employment in response to changes in the affordability of housing. On this basis, the authors expressed concern that the supply response needed to create meaningful affordability outcomes would need to be significantly high than envisaged, owing to the fact that supply increases would typically be offset by further induced demand as affordability stimulated migration, incomes grew, and existing households were able to split

¹³² Office for National Statistics, "Index of Private Housing Rental Prices, UK: January 2024," (2024). <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/january2024#index-of-private-housing-rental-prices-uk-data>.

¹³³ Mark Andrew et al., "Affordability targets: Implications for Housing Supply," (London: The Office of the Deputy Prime Minister, 2005).

up. Meen and Andrew¹³⁴ argued that, on this basis, housing targets based on past population trends would lead to worsening affordability over time.

Initially, a Strategic Housing Market Assessment (SHMA) and Strategic Housing Land Availability (SHLA) was used to coordinate local planning priorities. 'Plan, Monitor and Manage' arrangements were used to establish development needs at a local level over time¹³⁵. However, the process of implementing development based on existing economic trends meant that growth was reproduced in areas of existing privilege, at the expense of attracting growth in areas of inequality¹³⁶. Cochrane, Colenutt and Field¹³⁷ document how a regional development plan in the Milton Keynes and South Midlands region sought to expand housing growth ahead of new infrastructure investments or the creation of employment opportunities, which led to planners hastily approving housing developments that were ultimately banked by developers in an effort to fund future projects. This is attributed to a lack of clear alignment between priorities at different levels of government, and a failure to realise the viability of development in times of economic uncertainty.

With the election of the Conservative Government in 2010, housing policy was transitioned to a model that primarily saw planning as a form of market failure¹³⁸. Previous regional planning bodies were removed¹³⁹, and the planning regime was shifted to one designed to reduce the role of environmental considerations in favour of privileging economic growth¹⁴⁰. This was supplemented by interventions designed to discipline local authorities unsuccessful in boosting the delivery of private development¹⁴¹. If councils failed to maintain a quantitative supply of developable land, developers could overturn local policies as part of a 'presumption in favour of sustainable development'¹⁴².

'Viability-led' planning¹⁴³ became the norm, characterised by the regular release of sites deemed suitable for residential investment. However, driven by poor spatial coordination and a lack of insufficient infrastructure investment, this also had the unintended effect of creating a lack of confidence in investors looking to develop residential buildings in poorly serviced

¹³⁴ Geoffrey Meen and Mark Andrew, "Planning for housing in the post-Barker era: affordability, household formation, and tenure choice," *Oxford Review of Economic Policy* 24, no. 1 (2008).

¹³⁵ Mike Raco et al., "Towards a virtual statecraft: Housing targets and the governance of urban housing markets," *Progress in Planning* 166 (2022).

¹³⁶ Jessica Ferm and Mike Raco, "Viability Planning, Value Capture and the Geographies of Market-Led Planning Reform in England," *Planning Theory & Practice* 21, no. 2 (2020).

¹³⁷ Allan Cochrane, Bob Colenutt, and Martin Field, "Developing a sub-regional growth strategy: Reflections on recent English experience," *Local Economy* 28, no. 7-8 (2013).

¹³⁸ Vincent Nadin and Dominic Stead, "Spatial Planning in the United Kingdom, 1990-2013," in *Spatial Planning Systems and Practices in Europe : A Comparative Perspective on Continuity and Changes*, ed. Reimer Mario, Getimis Panagiotis, and Blotevogel Hans (New York, NY: Routledge, 2014).

¹³⁹ Nadin and Stead, "Spatial Planning in the United Kingdom, 1990-2013."

¹⁴⁰ Richard Cowell, "The Greenest Government Ever? Planning and Sustainability in England after the May 2010 Elections," *Planning Practice & Research* 28, no. 1 (2013).

¹⁴¹ Raco et al., "Towards a virtual statecraft: Housing targets and the governance of urban housing markets."

¹⁴² Quintin Bradley, "The financialisation of housing land supply in England," *Urban Studies* 58, no. 2 (2020).

¹⁴³ Ferm and Raco, "Viability Planning, Value Capture and the Geographies of Market-Led Planning Reform in England."

locations, and those looking to expand employment opportunities for residents¹⁴⁴. At the same time, the post-GFC period was characterised by significant spending cuts as part of widespread austerity measures. Delivery of social housing was transferred from municipal governments to the private sector, a measure that proved particularly unsuccessful during cyclical downturns¹⁴⁵.

The period was characterised by significant shortfalls in the delivery of national housing targets. It became apparent that significant gaps between the permitting of developable land and actual completions. Leishman¹⁴⁶ noted a statistically significant link between the elapse of time since permit approval, and the amount of nearby supply. In 2017, Sir Oliver Letwin was commissioned by the government to review the gap between permissions and completions on large sites in high demand areas¹⁴⁷. The review found that the median build-out period for these sites was 15.5 years. This was because large sites, which enabled significantly greater development yield, were being constructed based on the 'absorption rate,' being the speed at which they can be released on the market without materially affecting the price. This was not seen as evidence of intentional "land banking," but a reflection of the pace at which it is possible to release new supply in a market characterised by homogenous apartment development targeted towards the same population demographics. The draft review found that¹⁴⁸:

"If either the major house builders themselves, or others, were to offer much more housing of varying types, designs and tenures including a high proportion of affordable housing, and if more distinctive settings, landscapes and streetscapes were provided on the large sites, and if the resulting variety matched appropriately the differing desires and financial capacities of the people wanting to live in each area of high housing demand, then the overall absorption rates – and hence the overall build out rates – could be substantially accelerated."

The review found the solution to lie in the ability for the planning system to lower speculative land values by prescribing greater levels of diversity in terms of housing type, tenure, and affordability, the result being that new development would both reduce cost burdens brought by high windfall gains, while also providing housing that caters to a variety of different sub-markets. The lowering of land values would be supported by giving local authorities recourse to use compulsory purchase powers in the event of a slow build-out. The development would be stimulated by the coordination of new key infrastructure investments such as schools and health care, to be delivered through collaborative master planning arrangements between different levels of government. The scheme also envisaged granting new powers to councils to establish public land assembly funds and purchase undeveloped land, therefore

¹⁴⁴ Ferm and Raco, "Viability Planning, Value Capture and the Geographies of Market-Led Planning Reform in England."

¹⁴⁵ Gibb and James, "Housing in Scotland: evidence for Scottish government 2021-26."

¹⁴⁶ Chris Leishman, "Housing Supply and Suppliers: Are the Microeconomics of Housing Developers Important?," *Housing Studies* 30, no. 4 (2015).

¹⁴⁷ Oliver Letwin, "Independent review of build out," (2018).

¹⁴⁸ Oliver Letwin, "Independent review of build out" (2018).

coordinating the release of the housing at the right times. However, with changing political landscapes, the model proposed by the review has yet to be implemented at scale.

As of 2024, dwelling completions fell considerably short of all the *Barker Review* targets. In April 2024, an interest group review of England's progress against the original targets included an appraisal from Dame Kate Barker herself, who prescribed most of the failure to a lack of proper planning and collaborative governance brought by the post-2010 period¹⁴⁹:

*"The election of 2010 was followed by positive policy changes (the initial NPPF), but also a significant negative with the abolition of regional planning. The latter has made infrastructure planning, or allowing for environmental concerns, at the right scale more difficult. Infrastructure and housing plans are still not joined up. **And pushing decisions on housing numbers down to the local authority level has not proved successful** [emphasis added]."*

In addition, Barker attributed considerable policy failure to an undersupply of new social rented homes, constraints on local planning authorities brought by austerity cuts. The case study serves as a warning to ensure Victoria does not repeat the past policy failures of the post-2010 English 'pro-development regime.'

Case Study: Flanders, Belgium

Belgium has been historically characterised by a preference for strong private property rights and limited public intervention in the land market. Throughout most of the twentieth century, all development was authorised as long as it was located along an existing road¹⁵⁰. This style of settlement reflected to an 'anti-urban' sentiment, brought by poor quality inner city slums and limited will to improve urban living conditions¹⁵¹. In this context, a post-World War II construction boom led to rapid 'ribbon style' development, poorly coordinated infrastructure, and weak agglomeration economies¹⁵².

In the face of uncontrolled sprawl and associated difficulty coordinating the provision of infrastructure, Belgium introduced its Planning Act in 1962. This required the designation of subregional 'sector plans' designed to guide future land use and development patterns across the entire country¹⁵³. While municipalities within Flanders were originally tasked with preparing the regional plans, a sluggish response throughout the 1960s allowed landowners

¹⁴⁹ Home Builders Federation, "Beyond Barker: A Two-Decade Review of England's Housing Policies and Progress," (2024).

¹⁵⁰ Jean-Marie Halleux, Szymon Marcinczak, and Erwin van der Krabben, "The adaptive efficiency of land use planning measured by the control of urban sprawl. The cases of the Netherlands, Belgium and Poland," *Land Use Policy* 29, no. 4 (2012).

¹⁵¹ Pascal De Decker et al., "Revitalizing the City in an Anti-Urban Context: Extreme Right and the Rise of Urban Policies in Flanders, Belgium," *International Journal of Urban and Regional Research* 29, no. 1 (2005).

¹⁵² Pascal De Decker, "Facets of housing and housing policies in Belgium," *Journal of Housing and the Built Environment* 23, no. 3 (2008); Pieter Van den Broeck et al., "Spatial Planning in Flanders: Serving a bypassed capitalism?," in *Spatial Planning Systems and Practices in Europe : A Comparative Perspective on Continuity and Changes*, ed. Reimer Mario, Getimis Panagiotis, and Blotevogel Hans (New York, NY: Routledge, 2014).

¹⁵³ Louis Albrechts, "Planners as catalysts and initiators of change. The new structure plan for flanders," *European Planning Studies* 7, no. 5 (1999).

to successfully apply for and obtain building permits in advance of regulatory constraints¹⁵⁴. In response, the national government took over the preparation of land use plans in the early 1970s. 48 regional plans were prepared and implemented before 1987.

With a prospering economy throughout the 1960s, the land use plans zoned for 'oversized' designations of residential and industrial land. Despite an economic downturn in the 1970s, the government proceeded to retain the 'overzoned' supply of land, and implemented a policy of releasing further land in the hopes that this would reduce land prices, benefiting both developers and residential buyers¹⁵⁵. By creating sizeable margins in the supply of developable land, it was thought that this would limit the ability for landowners to monopolise the release of land, favouring a competitive market-oriented development market. Landowner and municipal lobbyists sent the national government lists of land that they had proposed would be developable, leading to the release of up to 914,000 plots, or 228,000 hectares, of land for development¹⁵⁶. However, contrary to the government's vision, most zoned capacity was not readily utilised, with the economic downturn leading landowners to instead bank development rights for future capital gains¹⁵⁷.

Flemish incomes rose in the 1990s, leading to the uptake of sprawling and wasteful residential development¹⁵⁸. A coalition of planners successfully lobbied the government to introduce a new structure plan for Flanders in 1997, intended to promote a culture of planning and limit the environmental impacts of current development¹⁵⁹. However, by intending to contain the existing sprawled urban form, the compact urban form policies were unable to provide certainty, or points of reference, to guide how future densification should take place¹⁶⁰. With little incentive to redevelop, the new planning tools encouraged further land speculation and banking of land with existing approved development rights¹⁶¹. As a result, much of the land approved for development in the 1970s remains undeveloped¹⁶², and with little control over the land market the cities continue to sprawl¹⁶³.

¹⁵⁴ Peter Lacoere and Hans Leinfelder, "Land oversupply. How rigid land-use planning and legal certainty hinder new policy for Flanders," *European Planning Studies* 31, no. 9 (2023).

¹⁵⁵ De Decker, "Facets of housing and housing policies in Belgium."; Lacoere and Leinfelder, "Land oversupply. How rigid land-use planning and legal certainty hinder new policy for Flanders."

¹⁵⁶ De Decker, "Facets of housing and housing policies in Belgium."; Lacoere and Leinfelder, "Land oversupply. How rigid land-use planning and legal certainty hinder new policy for Flanders."

¹⁵⁷ Lacoere and Leinfelder, "Land oversupply. How rigid land-use planning and legal certainty hinder new policy for Flanders."

¹⁵⁸ Jean-Marie Halleux, "Urban sprawl, urban containment and land management. A reflection on the concept of urban land supply," (2008); Halleux, Marcinczak, and van der Krabben, "The adaptive efficiency of land use planning measured by the control of urban sprawl. The cases of the Netherlands, Belgium and Poland."

¹⁵⁹ Albrechts, "Planners as catalysts and initiators of change. The new structure plan for flanders."

¹⁶⁰ Jean-Marie Halleux, "The Spatial Structuring of Interurban Housing Markets: Application to Building Sites Prepared for Self-Provided Housing," *Environment and Planning A: Economy and Space* 41, no. 9 (2009).

¹⁶¹ Halleux, "The Spatial Structuring of Interurban Housing Markets: Application to Building Sites Prepared for Self-Provided Housing."

¹⁶² Lacoere and Leinfelder, "Land oversupply. How rigid land-use planning and legal certainty hinder new policy for Flanders."

¹⁶³ Halleux, Marcinczak, and van der Krabben, "The adaptive efficiency of land use planning measured by the control of urban sprawl. The cases of the Netherlands, Belgium and Poland."

In the 21st century, Flanders has undergone a process of further deregulating their existing planning system, fast tracking permit applications, and removing structure plans¹⁶⁴. This has created gentrification-induced displacement, but overall patterns of spatial equality have remained consistent with their post-World War II form¹⁶⁵. Small social housing stocks remain scattered throughout inopportune parts of the urban periphery¹⁶⁶, and the social housing sector is constrained by fiscal limitations and continued political pressure for homeownership¹⁶⁷.

¹⁶⁴ Van den Broeck et al., "Spatial Planning in Flanders: Serving a bypassed capitalism?."

¹⁶⁵ Dominique Vanneste, Isabelle Thomas, and Lieve Vanderstraeten, "The spatial structure(s) of the Belgian housing stock," *Journal of Housing and the Built Environment* 23, no. 3 (2008/09/01 2008), <https://doi.org/10.1007/s10901-008-9111-3>, <https://doi.org/10.1007/s10901-008-9111-3>.

¹⁶⁶ De Decker et al., "Revitalizing the City in an Anti-Urban Context: Extreme Right and the Rise of Urban Policies in Flanders, Belgium."

¹⁶⁷ Sien Winters and Marja Elsinga, "The future of Flemish social housing," *Journal of Housing and the Built Environment* 23, no. 3 (2008/09/01 2008), <https://doi.org/10.1007/s10901-008-9113-1>.

Shaping metropolitan Melbourne: A discussion paper

for the Municipal Association of Victoria

13 December 2023





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APPENDIX 1

A positive planning agenda for Melbourne

A Plan for Victoria, or Plans for Melbourne and the Regions?

The Victorian Government's Housing Statement was released in September 2023. It introduced 'streamlined' pathways for housing related development assessments including a greater Ministerial role. The Housing Statement also includes a commitment to updating Plan Melbourne 2017-2050, with a new whole-of-Victoria focus, and further planning reform via a review of the Planning and Environment Act 1987.

The MAV has commissioned SGS Economics and Planning to prepare a Discussion Paper addressing 'what a Plan for Victoria should include and how the planning vision could be delivered, with local government acting as a valued and indispensable partner'.

A statewide plan as proposed by the Government, or at least a state-wide planning framework, should be supported. It provides the opportunity to establish a compelling long-term vision for development across the state, which fully addresses the relationship between Melbourne as the dominant urban centre, peri-urban areas so dependent on their relationship to Melbourne, and regional centres and hinterland rural areas. It provides the opportunity to establish an aspirational target for the split of future population between metropolitan Melbourne and regional Victoria.

However, in our view, **a single Plan for Victoria is not sufficient**. It can't adequately recognise or distinguish the distinct metropolitan, regional and rural communities of interest, and their unique spatial characteristics and needs. The complexity of metropolitan Melbourne as an integrated labour market, requiring inter-connected thinking about housing, employment centres and clusters, transport, the environmental context and the host landscape, deserves its own comprehensive plan. While not as complex, regional and rural areas also deserve distinct plans that recognise communities of interest.

Plans for both Melbourne and the regions are required to address distinct and growing challenges. A bold and positive agenda for these plans is proposed in this Discussion Paper, with local government positioned appropriately at the heart of implementation, recognising its role as content experts and local place custodians.

Unprecedented growth challenges

The Victorian Government's official population forecasts suggest that Metropolitan Melbourne's **population will increase between 2021 to 2051 by over 3 million people to 8 million**. To accommodate this growth more than 46,000 additional dwellings will be required every year – **or 895 dwellings every week for the next 25 years and beyond**. The Government's recently released Housing Statement raises the bar significantly with the aim of producing around 80,000 dwellings per year to 2051 across the state as a whole. The all-time peak in dwelling construction in Victoria was 71,802 in 2018, and the 20 year annual average to 2022 was 47,618.

The scale and complexity of this growth management and planning task for Melbourne and Victoria can hardly be over-stated. In parallel with building more housing than ever before, environmental, social and economic challenges need to also be addressed.

- Climate change is bringing more hazardous events such as flooding and bushfires. Ecosystems and biodiversity, and land used for food production need protection. The areas available and suitable for new development in 'greenfield' areas are shrinking.
- While the government ambition for 70% of growth in established areas of Melbourne is appropriate, higher density housing redevelopment puts pressure on existing infrastructure and community services, reduces areas for trees and cooling vegetation, and is not readily integrated in suburban areas where long and narrow lots with detached houses, developed in another era, are typical.
- As the urban area grows outwards spatial inequality deepens; residents in new suburbs have access to much fewer jobs and services than those in inner areas, within a reasonable travel time. Travel costs are typically higher and the jobs they are able to find pay less. The provision of community, public transport and road infrastructure is not keeping pace with development.
- Despite the arguments of some, there is very limited evidence that building more private market housing alone can address the housing affordability crisis affecting so many residents in Australian cities. An enduring re-investment in social and affordable housing (alongside other taxation and macro-economic policy support), and support for alternative community, tenure and ownership types, is also required.

To address these and other challenges new directions across 'five pillars' for metropolitan planning and four implementation themes are identified.

More than housing: five pillars of metropolitan planning

Metropolitan-scale strategic planning should be based on a compelling overall vision for the future structure of the urban area, optimising net community benefits.

Effective metropolitan planning identifies the broad extent of the urban footprint, and how future employment areas will be distributed, and housing, infrastructure and servicing provided to achieve the desired future urban structure. It identifies how governance and delivery systems will support place-based outcomes. The best strategic planning establishes clear spatial and place-based development directions supported by community exposure and engagement.

Strategic regional planning is crucial to creating a 'line of sight' for assessing the merit of development proposals and in translating objectives into planning controls at the local level.

Plan Melbourne is a comprehensive plan. The suggested directions in this discussion paper address new and emerging challenges and take the strategy 'further'.

Directions in support of the vision are expressed through metropolitan planning pillars:

1. **Settlement that respects the landscape** which should be supported by: meaningful Planning with Country; comprehensive state-led bushfire and flood mapping; effective policies to achieve tree canopy aims and a 'greener', cooler city.
2. **Strong economic and employment clusters** in a multi-centred city requiring a commitment to more accessible suburban jobs and economic activity, including relocating or directing government jobs to major centres; as well as protection of strategic industrial land for critical distributed economic and enterprise activities.

3. **Transport in support of a connected and compact city** requiring a Melbourne Integrated Transport Strategy combining land use and transport and identifying an investment and network plan for public transport, roads and 'e-travel' and active transport particularly cycling, with incentives and penalties to drive efficient investment in the transport network and sustainable, less polluting travel behaviours.
4. **Housing choice, affordability and sustainable neighbourhoods** with aspirational housing capacity targets for each council area demonstrating how the settlement vision including the 70% infill aim will be achieved, supported by social and affordable housing, liveability and zero carbon targets, and guidelines for local planning in activity centres and renewal areas.
5. **Infrastructure that supports resilient communities** including consistent state provided benchmarks and guidelines for the provision of community infrastructure and open space to enhance local planning and place outcomes, and additional state level community infrastructure financial support for greater infill development and disadvantaged areas.

A broad-based reform agenda that recognises local government's core role in plan implementation and system effectiveness

An effective plan or framework for delivery of Plan Melbourne is missing. Establishing this is perhaps a higher priority than preparing a brand new Plan.

The planning system as a whole – including its ability to deliver the aims of the existing or a future Plan for Melbourne and the regions, and other strategies and policies, and the expectations of the development industry and communities - needs review and reform. The Housing Statement has not addressed the fundamental challenges confronting the planning system. These constrain prospects for achieving its ambitious housing supply aims, let alone the liveable, productive and sustainable goals of a Plan for Melbourne.

Directions for reform to enhance plan delivery and establish a responsive system can be identified in four key areas, as follows:

1. **Governance** – The critical role for local government as a content expert and partner in implementing planning aims and strategies should be re-affirmed, alongside the establishment of a vehicle for metropolitan plan development, coordination and implementation that involves local government and Traditional Owners, with an expanded and re-booted role for Development Victoria for demonstration and actual delivery of housing and place aims.
2. **Regulation** – Undertake planning reform to better align responsibilities and system responses in the planning system (see figure below) including an audit of the VPP provisions for plan delivery and system efficiency and to confirm councils as co-stewards of the planning system.

ALIGNMENT OF RESPONSIBILITIES AND SYSTEM RESPONSES IN THE PLANNING SYSTEM

Complexity	Simple	Moderate – foreseeable but hard to codify	Strategically important and consequential, novel, complex
Policy design	Codify and remove from the system	Clear descriptions of intended outcomes (e.g. use, density and height).	Principle-based controls
Assessment type		Primarily technical assessment	Policy interpretation and judgement required – may raise significant policy questions
Notification and review		Limited to directly impacted parties	Available to third parties (unless compelling case otherwise)
Assessment / recommendation		Council officers	Council officers / independent panel
Decision-maker		Council officers / independent panel	Metropolitan authority / Minister

3. **Infrastructure Funding** – This is about the ability to raise funds for infrastructure to support planning aims and should: include a ‘pre-scheduled’ value capture contribution (or ‘development licence fee’) with council land exempt and a share of revenue distributed back to councils’ ‘finish’ the Infrastructure charges plans reforms by establishing a system of standard rates for local development contributions in parallel with Development Contribution Plans; and establish a state-wide and mandated Social and Affordable Housing Contribution (similar to the abandoned 2022 proposal).
4. **Resources** – Ensuring effective implementation and administration of the system, requires the removal of rate capping to enhance the fiscal independence of local government, the provision of targeted funding for planning scheme amendment work undertaken by local government, and the preparation of a workforce plan to expand town planning staff.

To ensure whole of government and inter-government clarity on roles and responsibilities the preparation of a **separate operational plan** is proposed.

5 Pillars of metropolitan planning	New directions
<p>Settlement in the landscape</p> <p>Respect and minimise impacts on the landscape and ecological systems - ecological sustainability is paramount, particularly in the face of climate change and threats to biodiversity. Trees, natural areas and water should be integrated into urban areas as part of a network of ‘green and blue infrastructure’. Sensitively planning <i>with</i> and <i>for</i> Country – respecting the Aboriginal approach to stewardship and care of soils, plants and water over thousands of years - is at the heart of this understanding of settlement in the landscape.</p>	<ul style="list-style-type: none"> Commit to Planning with Country. Establish and maintain networks of ‘green’ and ‘blue’ infrastructure within new and established areas, through tree canopy requirements and reforms to open space contributions Commit to bushfire and flood mapping to identify areas unsuited to development or intensification
<p>Strong economic and employment clusters</p> <p>Employment and economic activity clusters and concentrations are major determinants of a city’s ‘structure’. As destinations for work, shopping and leisure they provide a focus for transport planning. Employment is best clustered and located in centres to maximise accessibility to residents and workers, and benefit from ‘agglomeration’ (that is from business competition and collaboration). Industrial and employment land areas need to be provided for the trades, urban services, storage, manufacturing, and freight functions which are crucial to the economy and the functioning of cities.</p>	<ul style="list-style-type: none"> Elevate planning for a multi-centred city providing more accessible suburban jobs and economic activity. Further develop clear monitoring and planning and infrastructure investment guidance to local, regionally significant and state significant industrial areas.
<p>Transport in support of connected and compact cities</p> <p>The transport network, and the travel behaviours and patterns it enables, aligned with planning for employment and housing growth, underpins the achievement of a desired urban structure – in Melbourne’s case a multi-centred, compact and sustainable city. An integrated land use and transport strategy is required, focussed on minimising trips and trip lengths, maximising the use of public transport or non-car based modes for routine and leisure trips, efficient business to business movement for commercial vehicles and minimised and low-impact local private car based travel. Effective transport planning, and the incentives and penalties ‘in the system’, will also drive sustainable changes in travel behaviour and support the transition to less polluting modes such as public transport and electric vehicles.</p>	<ul style="list-style-type: none"> Prepare a Melbourne Integrated Transport Strategy that supports the sustainable settlement vision, multi-centred city structure and housing future established by the Plan for Melbourne.
<p>Housing choice, affordability, and sustainable neighbourhoods</p> <p>Over the past 50 years planning for new housing in Melbourne has centred on developing new suburbs on the fringe of the city, dominated by detached family housing dependent on car ownership and use. But housing markets and preferences are changing, reflecting changing patterns of employment, changing demographics, reduced home ownership and housing affordability and new patterns of working. At the same time, outward growth recognised as less sustainable and more costly for society. The challenge of building more housing in the established areas – ‘going up as well as out’ – is now a major focus of metropolitan and settlement planning. Planning for housing growth needs to balance a range of objectives: delivering greater housing choice, improving</p>	<ul style="list-style-type: none"> Nominate aspirational housing capacity targets by municipality to guide local planning, to demonstrate achievement of the settlement vision including 70% infill and 30% greenfield metropolitan wide split. Further develop activity centre and neighbourhood planning approaches based on explicit housing diversity, social and

affordability outcomes, and creating sustainable neighbourhoods. More sophisticated and design conscious approaches are required to demonstrate how increased density can leverage higher amenity outcomes.

affordable housing, open space, community infrastructure, active transport and net zero carbon targets.

- Expand the mechanisms available to achieve precinct based rather than 'lot-by-lot' infill development

Infrastructure for resilient communities

Accommodating growth and creating new housing requires investment in local community infrastructure, delivered at the right time, to support resilient communities. Community infrastructure is both 'hard' infrastructure (community facilities) and 'soft' infrastructure (community services and programs). Local governments have largely been tasked with financing the delivery, servicing, and management of local community infrastructure. However, increasing financial pressures are impacting their ability to increase their asset capacity, as well as renew and maintain existing assets. These financial pressures are a result of a range of outcomes such as rate capping, increased delivery responsibilities, increasing infrastructure costs, increasing service demands, market failure, and increasing community expectations. Councils face a financial and planning challenge of providing new or upgraded infrastructure in both infill and greenfield growth contexts, but also in providing backlog or vital support services and infrastructure to communities experiencing social and economic disadvantage.

- Commit to development of infrastructure benchmarks and guidelines as a baseline for local planning.
- Establish state guidance for open space contributions
- Commit to a program of state level community infrastructure support for greater infill development and support for disadvantaged areas.

Priority areas for reform to enhance plan delivery and system efficiency	New Directions
Governance – how can responsibilities for implementing planning aims and strategies be allocated and strengthened?	<ul style="list-style-type: none"> Reinforce the critical role for local government in plan implementation and system stewardship. Establish a metropolitan planning, coordination and implementation vehicle with responsibility for plan development and implementation. Re-boot Development Victoria for orderly and innovative development in greenfield and infill areas, with a mandate to generate net community benefits (social, environmental and economic outcomes) over commercial returns. Establish Traditional Owners as equal partners in developing and implementation Commit to measurement of plan effectiveness
Regulation – how can the system to regulate land use and development be improved in line with metropolitan and place planning aims?	<ul style="list-style-type: none"> Undertake a regulatory audit of the VPP provisions for plan delivery and planning system efficiency Recognise councils as co-stewards of the planning system, including through structured stakeholder engagement and feedback in system reforms Provide more structure and rigour to the way variations to discretionary provisions are considered and assessed
Infrastructure Funding – are the means to raise funds for infrastructure to support planning aims ‘fit for purpose’?	<ul style="list-style-type: none"> Establish a ‘pre-scheduled’ value capture contribution (‘development licence fee’) to replace the Windfall Gains Tax and GAIC with council land exempt and a share of revenue distributed back to councils. Establish a system of standard rates for local development contributions in parallel with DCPs Establish a mandated Social and Affordable Housing Contribution
Resources – what needs to change to ensure effective implementation and administration of the system?	<ul style="list-style-type: none"> Remove rate capping for enhanced fiscal independence of local government. Provide targeted funding for planning scheme amendment work undertaken by local government. Work with local government to prepare a workforce plan for strategic and statutory planners.
Implementation framework for the Plan for Melbourne	New Directions
For whole of government and inter-government clarity	<ul style="list-style-type: none"> Prepare a separate operational plan to guide whole-of-government implementation of strategic plans

1. Introduction

The housing crisis is focusing the attention of policy-makers. National Cabinet has agreed to a national target to build 1.2 million new well-located homes over five years, from 1 July 2024. The National Housing Accord provides incentives for the states and territories to undertake planning, zoning, land release and other measures to improve housing supply and affordability.

In this context the Victorian Government released *Victoria's Housing Statement: The decade ahead 2024-2034*¹ in September 2023 with a range of proposed reforms and initiatives focussed on planning system reforms (including 'streamlining' pathways for housing related development assessments including a greater Ministerial role), public housing renewal and development, and changes to renters rights (see box overleaf). For the longer term the statement also proposes:

- a future new strategic plan for the whole of Victoria which will target a split of residential development with 70% in established areas and 30% in growth areas
- a review and re-write of Planning and Environment Act 1987 promising to 'establish and clarify timeframes for decisions, as well as looking at the roles and responsibilities of everyone involved in our planning system...'

The MAV is the legislated peak body for local government in Victoria. It has a duty to advocate for the interests of its member councils. The MAV wants to position itself to positively influence the unfolding planning reform agenda in Victoria. As a step towards the preparation of a position paper the MAV has commissioned SGS Economics and Planning to prepare a Discussion Paper addressing **what a Plan for Victoria would include and how this vision could be delivered, with local government acting as a valued and indispensable partner.**

The Discussion Paper **is not** an adopted position statement of the MAV. The views expressed here are SGS's, though have the benefit of engagement with and comments from senior council staff and elected representatives in two briefings/workshops.

¹ <https://www.vic.gov.au/housing-statement>

State Government Housing Statement

In September 2023 the Government released the *Victorian Housing Statement: The Decade Ahead 2024-2034*. It has a focus on facilitating and accelerating housing supply, and explicitly claims this will enhance housing affordability (the Premier's foreword notes "It's a simple proposition: build more homes, and they'll be more affordable"). A summary of the key planning system reform elements are listed below.

Selected centralisation of decision-making including:

- Possible ministerial call-in for 'backlog' housing applications (after a 'dedicated team' works with councils, proponents and referral agencies).
- Expanded Development Facilitation Program to cover projects worth \$50m or more with 10% affordable housing (\$15 million in regional Victoria), including Build to Rent projects; these will be exempt from objector notice and appeal rights, and assessed by the Minister.
- Development of 'clear' planning controls in 10 Activity Centres.

'Streamlined' development pathways including:

- No permit required for Garden units (granny flats) of less than 60sqm (plus extensions to car ports and sheds).
- More 'Deemed to Comply' residential standards ('meaning councils will only assess aspects of a permit that don't comply with those standards'), already partially enacted through converting some ResCode standards to deemed-to-comply provisions.
- Fast approvals for an expanded Future Homes program (these are standard apartment designs for amalgamated lots).
- Removing the requirement for a permit for single dwellings on lots between 300 and 500 square metres.
- Single dwellings on lots smaller than 300 square metres, where an overlay doesn't exist, will be VicSmart proposals.

Other initiatives address:

- social housing projects / commitments
 - replacing the 44 high-rise public housing estates by 2051
 - construction of "up to 769" social housing homes over five years with funding from the Commonwealth Government's Social Housing accelerator
 - a new \$1 billion Regional Housing fund with a stated target of delivering 1300 new social and affordable houses in the regions
 - ongoing implementation of the Big Housing Build program
- \$500 million released from the Victorian Homebuyer fund to support home buyers.
- a levy on short stay accommodation (such as Airbnb), with funds directed to Homes Victoria
- actions to protect renters rights, including restricting rent increases between fixed term rental agreements, introduction of a portable rental bond scheme and extension of notice to vacate period.

The statement also flags a future review of the Planning and Environment Act 1987 and an update of Plan Melbourne 2017-2050, with a new whole-of-state focus.

A Plan for Victoria, or Plans for Melbourne and the Regions?

The Government has proposed the preparation of a Plan for Victoria as a whole.

A statewide plan, or at least a state-wide planning framework, should be supported. It provides the opportunity to establish a compelling long-term vision for development across the state, which fully addresses the relationship between Melbourne as the dominant urban centre, peri-urban areas so dependent on their relationship to Melbourne, and regional centres and hinterland rural areas. **It provides the opportunity to establish an aspirational target for the split of future population between metropolitan Melbourne and regional Victoria.**

However, **a single Plan for Victoria is not sufficient.** It can't adequately recognise or distinguish the distinct metropolitan, regional and rural communities of interest, and their unique spatial characteristics and needs. The complexity of metropolitan Melbourne as an integrated labour market, requiring inter-connected thinking about housing, employment centres and clusters, transport, the environmental context and the host landscape, deserves its own comprehensive plan. While not as complex, regional and rural areas also deserve distinct plans that recognise communities of interest.

A Plan for Victoria should, as a minimum, include:

- a broad settlement vision including the aspirational split of future population between metropolitan Melbourne and regional Victoria
- consequent housing aspirations for the metropolitan area and different regions
- nomination of a regional centres and place hierarchy, including the economic role of key centres, supported by major transport connections and investments included in a State Investment Strategy
- key state-wide principles by planning themes (e.g. housing, jobs, transport, rural areas, environment)
- a commitment to nested, separate regional plans and what we are calling here a Plan for Melbourne, with all the detail and directions contained in this discussion paper, considered for inclusion.

This Discussion Paper is focussed on metropolitan Melbourne, though is complemented by a similar Regional and Rural Discussion Paper. This emphasises the above point: that distinct approaches are required. This Discussion Paper contains:

- A summary of some key **metropolitan growth and development challenges**
- A **'five pillar' agenda for metropolitan planning**
- An **implementation framework agenda covering governance, regulation, infrastructure funding and resources.** Some suggested directions included here are in part a response to Housing Statement reforms which have to a certain extent 'sidelined' local councils in the planning and development process. The directions recognise that as the closest level of government to communities, and as content experts, councils will be crucial to a successful metropolitan and regional planning and the ongoing success of planning system reforms.
- A concluding statement on effectively **operationalising metropolitan and regional plans.**

2. Melbourne's metropolitan planning challenge

2.1 Planning for Metropolitan Melbourne in context

The State Government's current metropolitan planning strategy is *Plan Melbourne 2017-2050* which "defines the future shape of the city and state over the next 35 years". Plan Melbourne (including an update in 2020) is a comprehensive strategic plan for metropolitan Melbourne. It is framed around nine core planning principles.

- Principle 1 A distinctive Melbourne
- Principle 2 A globally connected and competitive city
- Principle 3 A city of centres linked to regional Victoria
- Principle 4 Environmental resilience and sustainability
- Principle 5 Living locally — 20-minute neighbourhoods
- Principle 6 Social and economic participation
- Principle 7 Strong and healthy communities
- Principle 8 Infrastructure investment that supports balanced city growth
- Principle 9 Leadership and partnership

It proposes a hierarchy and 'network of activity centres, linked by transport'. The network of activity centres includes Central city (Melbourne), seven National Economic and Innovation Clusters (focussed on universities), eleven metropolitan activity centres, 121 major activity centres and numerous neighbourhood activity centres.

A centrepiece of Plan Melbourne, and highly relevant to the spatial planning undertaken by councils is the 20 minute neighbourhood concept. This idea is built on six 'hallmarks'.

- **Hallmark 1 - Safe accessible and well -connected.** Safe, accessible and well connected for pedestrians and cyclists to optimise active transport.
- **Hallmark 2 - Thriving local economies.** Facilitate thriving local economies.
- **Hallmark 3 - Services and destinations.** Provide services and destinations that support local living.
- **Hallmark 4 - Climate resilient.** Support climate resilient communities.
- **Hallmark 5 - High quality public realm.** High quality public realm and open spaces.
- **Hallmark 6 - Viable densities.** Deliver housing/population at densities that make local services and transport viable.

Plan Melbourne was to be supported by land use framework plans (LUFPS) for the six metropolitan regions, to guide the application of Plan Melbourne. Prepared as drafts in 2019, the LUFPS have never been finalised.

In the September 2023 Housing Statement, the Victorian Government announced it would update Plan Melbourne, expanding it to cover the whole State. It proposed to support the government's 70:30 infill target by providing 'local government targets for where those homes will be built'².

A state-wide perspective on growth, including understanding the future of the regions in relation to metropolitan Melbourne, as well as the unique challenges of peri-urban areas and regional cities, should set a valuable context for metropolitan planning. It will not however, replace the need for a metropolitan wide plan to direct city growth, particularly given the extent of the growth and development challenges.

2.2 Forecast growth

The Housing Statement expresses the growth challenge as follows.

Victoria is the fastest growing state in the country: our population is expected to reach 10.3 million by 2051. Melbourne is set to become Australia's biggest city by the end of the decade, with the population estimated to grow by an additional 2.9 million people over the next 28 years.

If we're going to make sure the current problem doesn't get worse, we need to build 1.6 million homes by 2051 – that's around 57,000 homes a year. To ease the acute pressure people are currently facing, we need to deliver 2.24 million homes by 2051 – that's around 80,000 a year. On current trends, we are expected to build around 540,000 homes over the next decade. The work we're doing in this Housing Statement will facilitate an extra 250,000 homes being built in Victoria over the next ten years – and it'll support 16,000 jobs.

The official forecasts (Victoria in Future 2023) suggest Metropolitan Melbourne's population will increase by 3.1 million people to 8 million from 2021 to 2051³, with an estimated additional 1.39 million dwellings over the same period⁴.

According to these forecasts between 2021 and 2051 Metropolitan Melbourne will need to deliver more than 46,000 net additional dwellings annually - the equivalent of additional 895 dwellings every week⁵. The all-time peak in dwelling construction in Victoria was 71,802 in 2018, and the 20 year average to 2022 was 47,618.

In 2021 Victoria's population split was 72.5% in metropolitan Melbourne and 27.5% in regional areas.⁶ Looking forward Victoria in Future assumes metropolitan Melbourne will accommodate 83% of the additional population growth to 2051⁷, implying an ever greater share of development and economic

² Housing Statement, Victorian Government 2023

³ Victoria in Future (VIF) 2023

⁴ *ibid*

⁵ *ibid*

⁶ *ibid*

⁷ *ibid*

activity in the metropolis. A whole of Victoria Plan provides the opportunity to interrogate these projections, including identifying whether an alternative metropolitan versus regional Victoria population split might be more sustainable or desirable. This is a role for planning, to pursue a different future to 'business as usual' through appropriate policy and investment decisions.

Notwithstanding alternative scenarios about future regional versus metropolitan population shares, where and how growth will be accommodated is the fundamental question for metropolitan scale planning in Melbourne.

One marker already established is the urban consolidation aim⁸ of accommodating 70 per cent of net additional housing in the established parts of the metropolis and 30 per cent in greenfield areas (70:30). This alone would represent a significant shift in the location of new development (from around 40 per cent in established areas and 60 percent in greenfield areas⁹, that is 40:60), without even answering the question of the distribution of established area development.

2.3 Selected challenges facing metropolitan Melbourne

Plan Melbourne is a comprehensive metropolitan plan. However, the context for planning is changing rapidly. A new approach to planning for Metropolitan Melbourne will need to consider what past strategies have done well and how they could do better, and provide the guidance and direction to address new and evolving growth challenges. A selection of these challenges – by no means comprehensive - are discussed below.

The pressure on growth areas and the infrastructure challenge remains

Shifting the balance from greenfield to infill, to contain growth with the aim of better infrastructure utilisation, will not erase the pressure on new growth areas. Analysis by SGS¹⁰ for Melbourne's Interface Councils (responsible for greenfield development areas) found that the shift to 70% infill to 30% greenfield reduces the greenfield forecast populations by only 6 percent – down to 2.5 million from 2.7 million in 2036, with still around 1 million extra people added across the Interface Council areas.

The growth area development and infrastructure pressures will remain. In the case of older growth area councils, the planning and rezoning to accommodate the anticipated growth has already occurred. For these councils the challenge of supporting this development, and their future communities, with necessary infrastructure and services remains. Many growth area residents are left with the challenges of long commutes, high car dependency, a lag in local infrastructure and broken promises when it comes to roads and public transport.

For new growth areas, efficiently working through the elements of the planning process to support timely new housing supply – as well as create liveable and sustainable communities - is critical. This includes identifying and designating appropriate and hazard free land, protecting landscapes and

⁸ Policy 2.1.2 of Plan Melbourne 2017 - 2050.

⁹ Zierke, M (2023) Can we meet infill housing targets and deliver good design? As at <https://lgiu.org/briefing/a-discussion-with-melbourne-councils-on-the-future-of-infill-housing-how-to-progress-consistent-high-quality-outcomes/>

¹⁰ SGS Economics and Planning (2023) Melbourne's Growth Opportunity, prepared for Interface Councils.

environmental values, preparing place specific precinct plans, coordinating with all relevant agencies, engaging with communities, funding and delivering both local and state infrastructure and addressing land fragmentation for orderly development.

The current approach to housing intensification isn't delivering

While greenfield growth management is full of challenges, Melbourne has a long track record of new suburban development, and established processes and guidelines to support planning and delivery.

Notwithstanding established aims for diverse and liveable communities in established or infill area development, and an understanding of the benefits of planned densification, there is no clear guidelines, or 'pattern book' for successful renewal. This is a newish challenge, with undeveloped tools and levers.

Unfortunately, the status quo approach to infill development often generates poor outcomes. Design quality is often poor, housing diversity is lacking, community infrastructure becomes over-crowded, provision of green canopy and new open space is not keeping pace, and connected active transport networks are not being created. Zero carbon aims are yet to be embedded. New housing is typically not affordable to most households. Achieving the aims of the 20 minute neighbourhood agenda is proving difficult.

Infill development falls into three broad categories:

- redevelopment of larger brownfield (ex-industrial) sites (delivering 26 per cent of development 2005-2016¹¹) – these have been relatively 'easy' to convert though opportunities will diminish as the continued need for industrial land to accommodate trades, warehousing, depots, manufacturing and freight operations is better understood.
- focussed on activity centres and public transport corridors (7 per cent of development 2005-2016) – intensification has been limited to just a few key activity centres, with varying levels of density and design outcomes (poor feasibility for higher density living and community resistance to development can be barriers in these areas)
- scattered infill (23 per cent of development 2005-2016) – this is mostly through lot by lot low to medium density dual occupancy and villa unit type development where design and liveability outcomes in aggregate are particularly poor, with loss of deep soil for trees, poorly oriented housing, eroded public domain (and effective yields are below what they should be).

Realistically, a much greater share of established area development in future should be in activity centres and through more targeted, better planned scattered infill,

However, in the absence of tools to achieve high quality, affordable medium density development to showcase what could be achieved, a great deal of proposed intensification is met with community opposition. For local governments, better design and amenity outcomes are essential to generating community support for change.

¹¹ (DEWLP 2016) Metro Melbourne Housing Development Data Summary Report 2016 as at <https://www.planning.vic.gov.au/guides-and-resources/data-and-insights/housing-development-data>

There is a growing divide in access to jobs and services

As Melbourne has grown outward so too has the travelling distance to jobs and services for residents. Plan Melbourne recognised the need to create job opportunities in Melbourne's northern and western regions – particularly high value knowledge-based jobs – as well as to improve access to jobs closer to where people live.

Yet, recent analysis of 'effective job density' (EJD) in metropolitan Melbourne¹² (2021) shows the CBD and inner city as being the most 'economically dense', with density or access to shares of metropolitan Melbourne's jobs reducing in outer areas. EJD is indicative of the number of jobs in an area and accessible from an area – bringing together employment locations and transport availability from any particular location. This reducing density of employment with distance from the inner city also reflects access to services. "Noting that one person's job is often another person's service, locating in a high EJD area also means greater availability of education, training, health, retail, recreational and cultural services"¹³.

Perhaps most concerning is not just the failure to increase access to employment in outer and growth areas, but that as housing has continued outwards access to jobs has decreased. In 1996 residents moving to the growth area of Lynbrook had access to 23.9 per cent of Melbourne's jobs (373,058 jobs) within a 30-minute drive. Today, residents moving to the Pakenham East growth area only have access to 4.8 per cent of Melbourne's jobs (133,233 jobs) within a 30-minute drive.

The impact of this divide between where someone lives and access to jobs on women's workforce participation is significant. Research shows that despite higher levels of education women typically work less hours and in lower paid jobs in outer areas of Melbourne in order to meet the demands of being a primary caregiver. With the primary breadwinner, typically male, travelling longer distances to access employment.

The housing crisis continues – more social and affordable housing is required

It is estimated Victoria will need an additional 600,000 social and affordable dwellings¹⁴ by 2051 to accommodate households that are homeless, or are very low income and low income households in rental stress. While the Victorian Government's Big Housing Build is adding capacity, it is not enough to overcome years of under investment. Across Greater Melbourne only 2.3 per cent of the population was in social housing in 2021. "The Big Housing Build aims to increase social housing dwellings in Victoria from 80,500 to about 89,000 – about 3.5% of all housing. That's still less than the Australian average of 4.2% and the OECD average of 6%."¹⁵

¹² Full reference

¹³ https://sgsep.com.au/assets/main/Publications/SGS-Economics-and-Planning_Melbournes-Deveopment-Opportunities-Report.pdf

¹⁴ https://sgsep.com.au/assets/main/SGS-Economics-and-Planning_Commonwealth-housing-policy_occasional-paper.pdf

¹⁵ Victoria's \$5.4bn Big Housing Build: it is big, but the social housing challenge is even bigger (theconversation.com)

Backlogs in the provision of ‘structural’ infrastructure such as arterial roads and public transport

The current backlog of key ‘structural’ infrastructure such as arterial roads and key public transport provision or upgrades has left many communities facing long commutes and often significant congestion in accessing school, education and other services. Poor public transport access contributes to car dependence, with all the added costs that this entails.

An example of delays and backlogs in infrastructure provision include the dropping of a commitment to new electrified lines to Melton and Wyndham Vale, serving some of the nation’s fastest-growing suburbs, as part of the “Western Rail Plan” unveiled ahead of the 2018 election

Planning for and provision of infrastructure is struggling to keep pace with high population growth, particularly in a post-Covid context. As noted by Infrastructure Victoria, “Across all infrastructure sectors, high levels of population growth forecast for Victoria are reducing infrastructure planning time horizons”¹⁶. With Victoria’s population projections consistently being revised upwards, “Plans developed over 10 years ago which aimed to address demand over 20 or 30 years need to be updated as projected 30-year demand is now more likely to occur within the next 15 years.”

A lack of integrated land use and transport planning

In most major metropolitan areas the integration of transport and land use planning is a key aim. The imperative is to ensure that new transport planning and investment is in ‘lock-step’ with spatial directions for new employment and residential development so that sustainable travel mode choices are available where most needed, and that car dependence and travel distances are minimised to reduce the friction and cost of transport. It is about maximising the return from scarce transport dollars.

Transport and land use planning need greater integration in metropolitan Melbourne. This is fundamental to managing a city projected to grow to eight million people in 2050. Melbourne’s public transport network has not kept pace with Melbourne’s growth, notwithstanding new Metro rail investment and incremental expansions or system upgrades elsewhere.

Access to the radial train network has decreased with areas between the rail corridors often not well serviced by bus or tram services. Some major commercial centres and economic clusters remain disconnected by structural public transport, particularly in middle and outer areas.

Melbourne’s outer suburbs are already car dependant and residents face long travel times to access jobs and services. Looking forwards, three quarter of the projected increase in employment to 2030 is forecast to occur in Melbourne’s inner and middle suburbs. At the same time, two-thirds of the population growth is expected to occur in existing growth areas and the inner metro region.

Infrastructure Victoria (IV)¹⁷ estimated there will be an extra 3.5 million extra trips daily across Melbourne’s transport network in 2030, with cars likely to still account for 70% of trips. Time spent on congested roads across Melbourne is forecast to increase by 20% to 2030.

¹⁶ Infrastructure Victoria (2019) Infrastructure Provision in Different Development Settings Metropolitan Melbourne Volume 1 Technical Paper.

¹⁷ <https://www.infrastructurevictoria.com.au/wp-content/uploads/2019/04/Five-year-focus-Immediate-actions-to-tackle-congestion-April-2018.pdf>

In addition to the environmental and social impacts, road congestion across all roads in Melbourne cost \$4.6 billion in 2015 and is forecast to increase to 10.2 billion 2030¹⁸. By 2046, around one third of all freight transport in Victoria is expected to occur in congested conditions¹⁹.

Community infrastructure provision is not keeping up with development

The delivery of services and infrastructure to keep pace with new housing developments is more difficult – not to mention more expensive – in greenfield developments on the urban fringe. This is exacerbated when growth area councils are facing multiple development fronts. This is leaving new developments cut off, sometimes literally, as local roads and other infrastructure aren't delivered in time with new development. Infrastructure contributions need to be fit for purpose to support local government delivery of this critical local infrastructure.

Building new infrastructure in greenfield areas can be up to four times more expensive than adapting existing infrastructure in established suburbs²⁰. Alongside this, the sheer scale of infrastructure required, along with the timely delivery of infrastructure in line with housing delivery, is a significant challenge. For example, in the City of Casey, Council has \$3.5 billion worth of assets to maintain and renew, with an estimated additional infrastructure requirement of \$1.5 billion for their adopted Precinct Structure Plans (PSP), with an additional four PSPs yet to be developed.

Shifting development from greenfield to already established areas is a way of providing greater access to existing community infrastructure. Focussing new infill development around existing infrastructure also provides opportunities for co-location or integration opportunities, flexibility of usage of spaces, as well as leverage potential partnership opportunities.

However, increased growth in infill areas also brings significant upgrade challenges, particularly where infrastructure is ageing, no longer fit for purpose or not keeping pace with increasing and changing community needs.

Open space is a clear example. The current level of open space provision in Metropolitan Melbourne is approximately 30sqm per capita. With the forecast increased density in infill areas to 2040, if no additional open space is added, the provision would reduce to 20sqm per capita. Access to high quality, accessible and diverse open spaces is one of the key drawcards to Melbourne and the liveability of the city, let alone the benefits that these spaces provide for wellbeing, social inclusion, and mental health.

There are some significant challenges that need to be addressed with increased population growth to ensure current and future infrastructure has the capacity and ability to service increased demand. This includes understanding:

- **Spatial disadvantage** – including the needs of disadvantaged parts of Melbourne where community infrastructure and services play a critical support role (noting intense disadvantage concentrated in

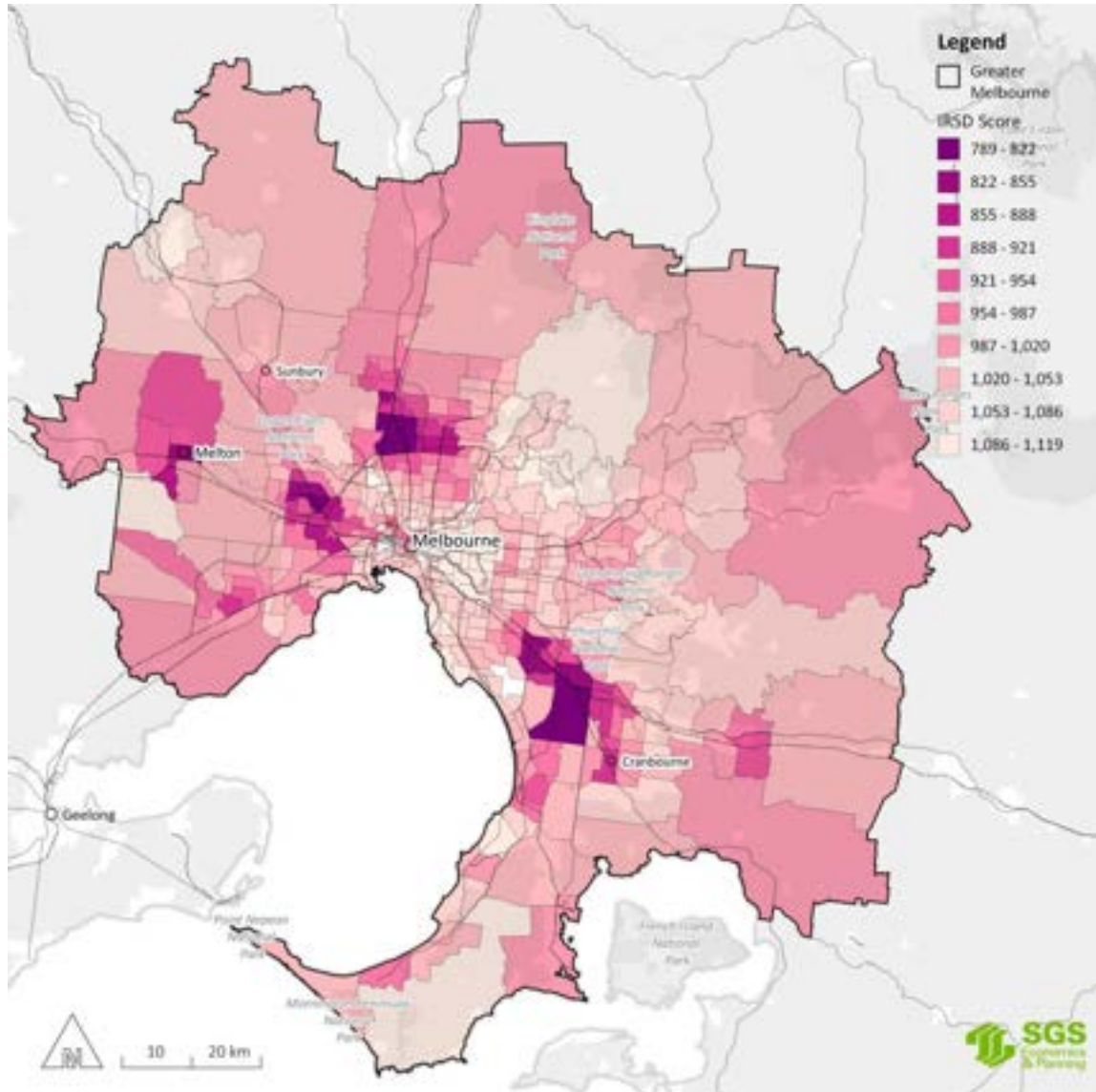
¹⁸ <https://www.infrastructurevictoria.com.au/wp-content/uploads/2020/03/Good-Move-fixing-transport-congestion-Infrastructure-Victoria.pdf>

¹⁹ <https://www.infrastructurevictoria.com.au/wp-content/uploads/2020/03/Good-Move-fixing-transport-congestion-Infrastructure-Victoria.pdf>

²⁰ Infrastructure Victoria (2023) Our home choices: How more housing options make better use of Victorian's Infrastructure.

recent or new growth areas in the south-west, west, north and south-east of metropolitan Melbourne as shown in Figure 1)

FIGURE 1: SOCIO-ECONOMIC STATUS



Source: ABS (2021) Index of Relative Socio-economic Disadvantage (IRSD)

- **Current state of assets** – with ageing or not fit for purpose infrastructure requiring significant maintenance, renewal, and or redevelopment with implications for current and future capital budgets
- **‘Landlocked’ infrastructure** - existing infrastructure is often unable to expand either because no additional land is available (being already developed) or where it might be available is prohibitively expensive to purchase.
- **Coordinated delivery of infrastructure** – integrating and coordinating the provision of state and local infrastructure to maximise the use of buildings and manage costs, will be critical as the

population increases, but this will require both local and state government to be open to alternative delivery pathways, integration of models, flexibility, and in some cases, increased risk.

A key issue is the absence of state adopted community infrastructure benchmarks or provision standards to articulate what level of community infrastructure is required. The current benchmarks often referred to are only applicable in growth areas, and given they were developed in 2008, have not kept pace with changes service and community needs.

Need for additional action on climate resilience

The impacts of climate change are already being felt locally. Impacts include the increased occurrence and severity of extreme weather events, and the likelihood of different climate or weather extremes simultaneously or in succession - having an even greater impact than those extremes occurring in isolation. Heavy rainfall impacts on the road network and severe flooding events leave local governments and communities grappling with recovery, rebuilding, trauma, homelessness and community displacement²¹. Storms and floods impact on food production, urban transport systems and air travel. Extreme heatwaves, alongside the urban heat island, present a significant public health risk exacerbating pre-existing health conditions and an increased loss of life²² and threaten the livability of urban areas. They lead to increased energy consumption, disproportionately affecting more vulnerable communities, and present a significant economic cost with heatwaves estimated to cost Victoria \$87 million annually in 2018²³.

Projected changes in Melbourne's weather by 2050



Annual rainfall down 8 per cent



Increase number of hot days over 35°C
Up from 8 days annually 1986-2005 to
16 days annually



Sea level rise
Increase of 12 cm by 2030s
& 39 cm by 2070

Source: Department of Environment, Land, Water and Planning (2019). Victoria's Climate Science Report 2019.

There is an urgent need to accelerate climate-hazard resilience and adaptation planning and delivery. The risk of increased extreme weather events varies spatially due to a variety of factors and planning for mitigating these risks cannot be undertaken uniformly. This planning needs to be informed by an understanding of the compounding impacts of climate-related hazards.

Balancing growth with protecting and enhancing the natural environment is critical for a resilient metropolis.

²¹ City of Maribyrnong (2023) Submission to the Inquiry into the 2022 Victorian Floods
https://new.parliament.vic.gov.au/4a7f39/contentassets/8dccc08e37a944e1ba84cd6289579348/submission-documents/530.-maribyrnong-city-council_red.pdf

²² <https://www.health.vic.gov.au/your-health-report-of-the-chief-health-officer-victoria-2018/environmental-health/heat-health>

²³ IBID

Tree canopy which is vital for cooling the city is being lost

Tree canopy, tree foliage that provides shade and reduces temperatures and mitigates urban heat, is typically vegetation that is taller than three metres. These larger trees are a critical element of sustainable, liveable neighbourhoods. Variation in tree cover across the metropolitan area reflects variations in local environments and different development patterns, past and present. Some areas and populations are also more exposed to urban heat and heat stress; so cooling and greening these areas is critical. Scenario modelling²⁴ indicates that if we continue current development design, Melbourne will have 13 per cent less canopy by 2050.

While local governments across Melbourne are working to increase tree canopy, there are specific barriers that need to be addressed. This includes limitations in the planning scheme and the ability to influence outcomes on private land, noting that residential land has the largest combined concentration of vegetation and tree cover in Melbourne.

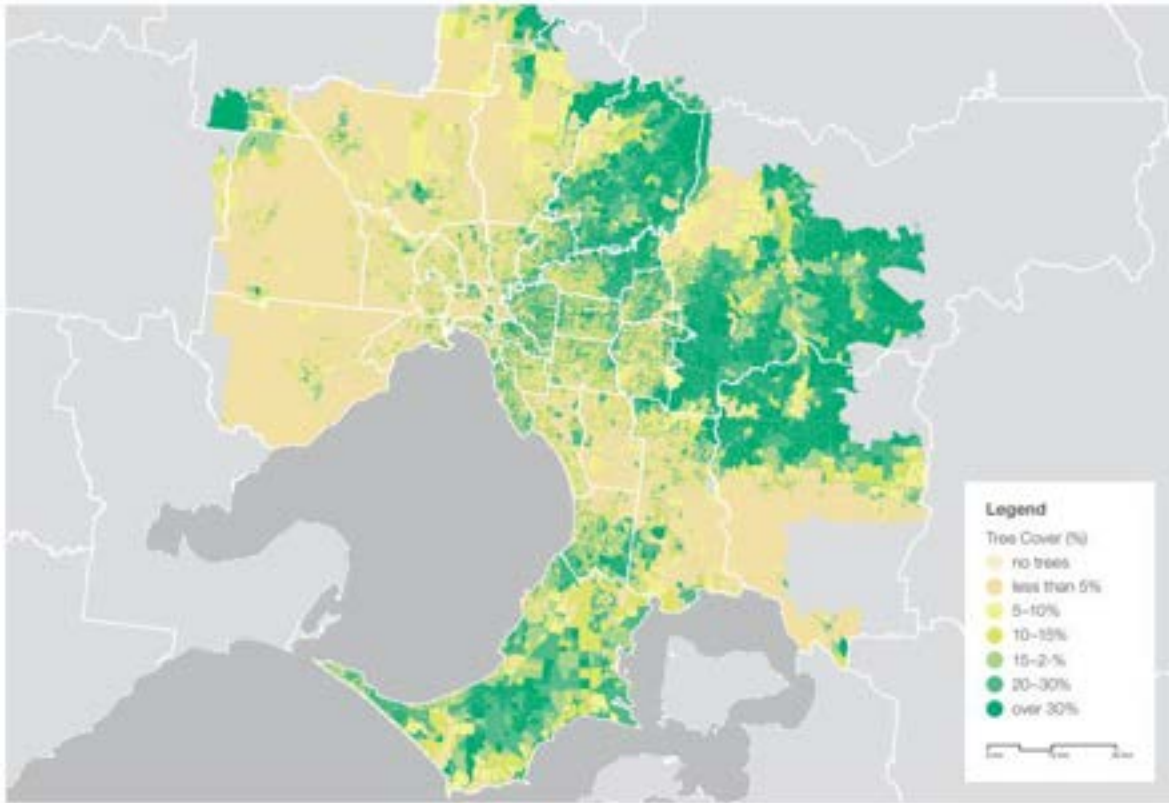
There is also scope for greater consideration of tree canopy and cool surfaces in non-residential development. For instance, car parking areas retain urban heat, are poorly shaded and miss opportunities for significant tree cover. With more direction, car parks and other large hardstand surfaces could provide multiple roles for canopy trees, water sensitive urban design and car parking.

Planting of street trees should be linked to broader urban greening and active transport goals, for example prioritising tree canopy along major walking routes connecting to schools, retail and other services.

When considering the role of tree canopy in urban heat, the spatial inequality in tree cover as shown in Figure 2, takes on even greater meaning. With western suburbs already hotter and drier, the need to increase tree canopy cover to help mitigate the impacts of urban heat becomes critical.

²⁴ CRCWSC (2019) Cooling and Greening Melbourne – Future scenarios: Metropolitan Melbourne - Department of Environment Land Water and Planning Melbourne, Australia: Cooperative Research Centre for Water Sensitive Cities

FIGURE 2: TREE CANOPY COVER



Source: Hurley et al., Urban vegetation cover analysis Melbourne Metropolitan Region, Melbourne, Department of Environment, Land, Water and Planning, 2018, p. 3. As in Victoria's Infrastructure Strategy 2021-2051.

3. The five pillars of metropolitan planning

3.1 Overview

Strategic planning for future growth is essential for metropolitan Melbourne, to not only identify how land will be used and developed, but to achieve broader economic, social and environmental objectives. Metropolitan-scale strategic planning should be based on a compelling overall vision for the future structure of the urban area.

The best strategic planning is based on rigorous analysis, an understanding of the costs and benefits of different settlement futures, and clear spatial and policy directions supported by community exposure and engagement.

Effective strategic planning informs trade-offs between different objectives; identifies the broad extent of the urban footprint; identifies how future employment areas will be distributed and new housing provided to achieve a desired future urban structure; identifies how infrastructure and servicing will support the achievement of the future urban structure; and how governance and delivery systems will support place-based outcomes. Strategic regional planning is crucial to creating a 'line of sight' for assessing the merit of development proposals and in translating objectives into local planning controls.

Five pillars of metropolitan planning

The key pillars to support the achievement of the urban development vision, and inform future planning for metropolitan Melbourne are summarised as follows.

1.	Settlement in the landscape
2.	Strong economic and employment clusters
3.	Transport in support of connected and compact cities
4.	Housing choice, affordability, and sustainable neighbourhoods
5.	Infrastructure for resilient communities

The existing Plan Melbourne already addresses many aspects of these five pillars, with agreed and established directions for managing settlement and development. The focus in the suggested directions under each of the pillars that follow is on addressing new challenges with new ideas and initiatives, to provide a better, more contemporary and relevant metropolitan strategic planning framework.

3.2 Settlement in the landscape

Development and settlement should respect and minimise impacts on the landscape and ecological systems. Ecological sustainability is paramount to the future of all our cities – particularly in the face of climate change and threats to biodiversity. Planning for human activities and the built environment should be framed by the protection of biodiversity, precious landscapes, waterways and natural resource catchments. Trees, natural areas and water should be integrated into urban areas as part of a network of ‘green and blue infrastructure’. Sensitively planning *with* and *for* Country – respecting the Aboriginal approach to stewardship and care of soils, plants and water over thousands of years - is at the heart of this understanding of settlement in the landscape.

New directions for metropolitan planning

Commit to Planning with Country.

Include a commitment to understanding First Nations cultural and land management practices, and how these can be at the heart of contemporary metropolitan and land use planning, through dialogue and the development of shared knowledge with the Wurundjeri Woi-wurrung, Bunurong and Wadawurrung peoples of the Kulin Nation.

Planning with Country

Aboriginal peoples have looked after the Australian landscape for thousands of years. Future development of metropolitan Melbourne needs to plan both *with* and *for* Country, as understood by Traditional Owners and Custodians.

Planning at its heart should seek to deliver positive outcomes for Country and the community. However, the planning system does not allow for the inclusion of Indigenous people within the system as a valued partner, with the traditional knowledge to inform how we care for and plan for Country. We need to embed a practice of working with First Nations, to value and respect their cultural knowledge and to engage First Nations people in co-leading the design and development of built environment projects and public infrastructure.

The NSW Government Architect has recently developed the Connecting with Country Framework,²⁵ which provides guidance for industry around integrating Country through planning, design, and delivery processes. This is an example of good practice, but there is scope to ‘go further’ and engage Traditional Owners as equal partners in developing and implementing strategic regional and metropolitan plans.

²⁵ NSW Government Architect, 2023, ‘Connecting with Country,’ Issue no.02 – 2023, <https://www.governmentarchitect.nsw.gov.au/resources/ga/media/files/ga/case-studies/connecting-with-country-framework.pdf?la=en>

Establish and maintain networks of ‘green’ and ‘blue’ infrastructure within new and established areas, through tree canopy requirements and reforms to open space contributions.

Meaningful ways of enhancing ‘green’ infrastructure in both private and public areas for climate resilience and amenity need to be developed. This should include (in private areas) giving statutory effect to tree canopy requirements, for example mandating a minimum of say 30 per cent tree canopy coverage during precinct development (which could be supported by provision of access to funding for implementation partners to plant, replace and maintain tree canopy trees)²⁶. For public areas developer open space contributions should be reformed to provide direct funding to create an interconnected open space network and extend Melbourne’s urban tree canopy²⁷.

Green and blue infrastructure is critical for climate resilience

Urban green and blue infrastructure is all of the vegetation and water that provides environmental, economic and social benefits such as clean air and water, climate regulation, food provision, erosion control and places for recreation²⁸. It includes trees and vegetation, along with built infrastructure such as green roofs and walls, and water elements such as rivers, lakes, swales, wetlands and water treatment facilities. Access to blue and green infrastructure offers physical and mental health and wellbeing benefits along with critical ecological services. A thriving connected network of natural spaces and corridors across the new and existing urban areas is critical to support biodiversity and to access benefits of urban cooling and greening. Similarly, metropolitan waterways and waterbodies play a critical ecological role and well-planned water sensitive urban design can help mitigate the impacts of flooding events.

Commit to bushfire and flood mapping to identify areas unsuited to development or intensification.

For both bushfire and flood risk the State should lead the mapping to ensure it informs the extent of urban settlement, and building and planning controls, based on the best available data and science. The mapping would consider all relevant aspects relevant to bushfire and flood risk, including through consultation with local government and water authorities. The mapping should be kept up to date, in real time. While comprehensive mapping will take time (to be ultimately included in an up-to-date central data base) the new Plan for Melbourne should include sufficient bushfire and flood mapping to identify areas of hazard, and to inform residential and other land use planning (via corresponding timely updates to planning schemes).

Council by council or precinct by precinct analysis is highly inefficient and adds costs and risks to the development process. The 2009 Victorian Bushfires Royal Commission’s recommendation 37 called for the State identify a central point of responsibility for and expertise in mapping bushfire risk²⁹. This has

²⁶ <https://www.infrastructurevictoria.com.au/2021/05/05/getting-to-the-root-of-victorias-tree-canopy-struggle/>

²⁷ <https://www.infrastructurevictoria.com.au/2021/05/05/getting-to-the-root-of-victorias-tree-canopy-struggle/>

²⁸ Lin, B. (2018). Establishing Priorities for Urban Green Infrastructure Research in Australia. *Urban Policy and Research*.

²⁹ <http://royalcommission.vic.gov.au/Commission-Reports/Final-Report/Volume-2/Chapters/Planning-and-Building.html>

not yet occurred. While the Parliamentary Inquiry in the 2022 Flood Event is ongoing, a similar recommendation for flood mapping could be expected.

3.3 Strong economic and employment clusters

Significant clusters and concentrations of employment and economic activity are the major determinants of a city's 'structure'. They are the destinations for work, shopping, leisure and business trips and thereby provide a focus for transport planning. Employment is best clustered and located in centres to maximise accessibility to residents and workers, and benefit from 'agglomeration' (that is from business competition and collaboration). Industrial and employment land areas need to be provided for the trades, urban services, storage, manufacturing, and freight functions which are crucial to the economy and the functioning of cities.

New directions for metropolitan planning

Elevate planning for a multi-centred city providing more accessible suburban jobs and economic activity.

A compelling settlement vision which addresses equity and the mismatch between the location of housing and employment opportunities must be based on a strong multi-centred metropolis. The new Plan for Melbourne provides the opportunity to 're-think' the structure of the metropolitan area and which centres should become a major focus for growth and development, in the context of wider economic changes and technological (including Artificial Intelligence) disruptions to transport behaviours, working environments and the nature of work itself.

A multi-pronged program of support for priority economic growth centres might include deepening planning partnerships with councils and providing financial support to meet development objectives, providing transport access investments, relocating or directing government jobs to these centres, government land assembly to create new high amenity, high density precincts, and targeting these centres for national and state housing program expenditures.

Further develop clear monitoring and planning and infrastructure investment guidance to local, regionally significant and state significant industrial areas.

The Melbourne Industrial and Commercial Land Use Plan (MICLUP) identifies State Significant, Regionally Significant and local industrial and commercial land and provides planning directions and guidance for industrial and commercial precincts, including for local government. MICLUP is a significant and important strategic planning document and a major advance in providing guidance for industrial and commercial land planning Melbourne. MICLUP should be updated on a five yearly basis and be supported by the availability of real time industrial land development and consumption data.

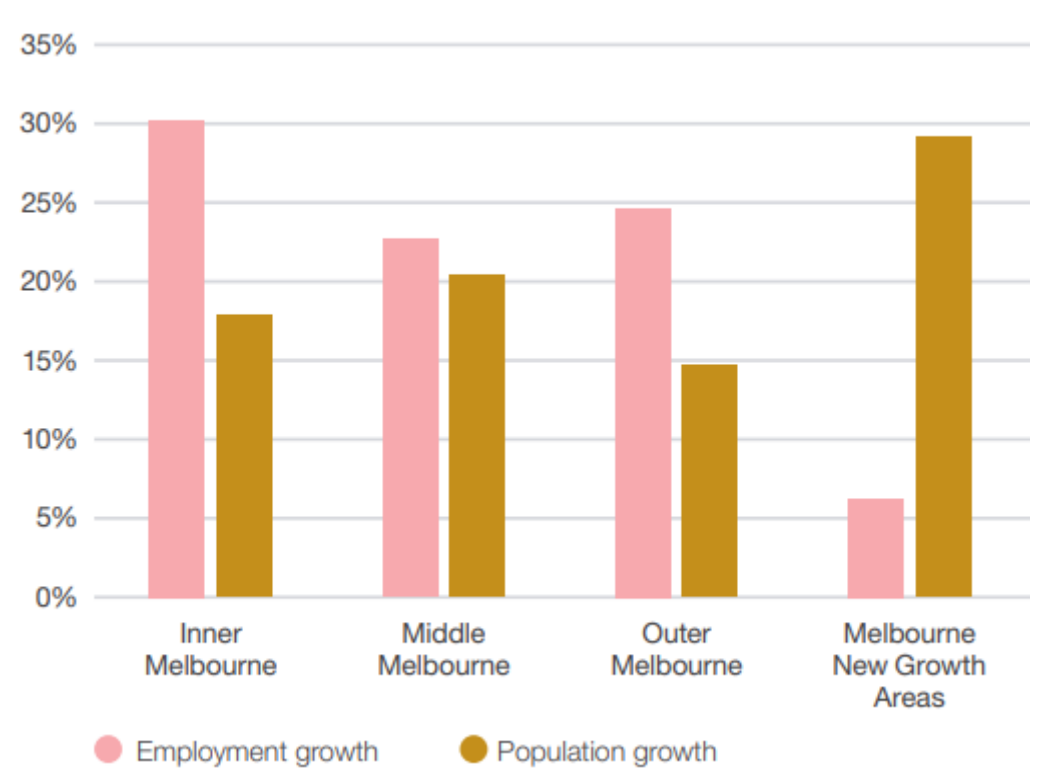
Further work on the industry character or economic role of state and regionally significant precincts or the timing, staging and prioritisation of the precincts, including from an infrastructure provision perspective. This level of detail would make clear the imperative for protecting these precincts now and into the future. Planning for industrial precincts should link to and be informed by transport planning and housing delivery.

Lastly, it is critical that in the push to increase housing in established areas, industrial land and supporting uses are retained, unless their loss can be absolutely justified by evidence and analysis.

Melbourne’s jobs access divide

Melbourne’s outer suburbs were once engines ‘of inclusion and upward mobility’³⁰. Today their distance from major job concentrations, alongside the centralised character of ‘knowledge sector jobs’ is leading to a mismatch in skills and job opportunity for growth areas residents. Looking forward this spatial inequity in terms of access to employment is set to grow. Modelling by Infrastructure Victoria, as shown in Figure 3, highlights the gap between population growth and employment growth in Melbourne’s new growth areas.

FIGURE 3: COMPARISON OF EMPLOYMENT AND POPULATION GROWTH PROJECTIONS (2018 TO 2051)



Source: Infrastructure Victoria (2021) Victoria’s infrastructure strategy 2021-2051

³⁰ SGS Economics and Planning (2023) Melbourne’s Growth Opportunity, prepared for Interface Councils

3.4 Transport in support of a connected and compact city

The transport network, and the travel behaviours and patterns it enables, aligned with planning for employment and housing growth underpins the achievement of a desired urban structure – in Melbourne’s case a multi-centred, compact and sustainable city. An integrated land use and transport strategy is required. It should focus on: minimising trips and trip lengths (by supportive neighbourhood and precinct planning); maximising the use of public transport or non-car based modes for routine and leisure trips (journeys to work or activity centres and event locations); efficient business to business movement for commercial vehicles; minimised and low-impact local private car based travel. Effective transport planning, and the incentives and penalties ‘in the system’, will also drive sustainable changes in travel behaviour and support the transition to less polluting modes such as public transport and electric vehicles.

New directions for metropolitan planning

Prepare a Melbourne Integrated Transport Strategy that supports the sustainable settlement vision, multi-centred city structure and housing future established by the Plan for Melbourne.

Amongst other aims the Integrated Transport Strategy should demonstrate how it will:

- minimise trips and trip lengths
- maximise the use of public transport or non-car based modes for routine work and shopping, and entertainment, recreation and leisure trips
- support efficient business to business movement for commercial vehicles
- minimise local private car based travel and its impacts
- drive sustainable changes in travel behaviour and modes including the decarbonization of the transport.

A Transport Strategy integrated with the Plan for Melbourne would identify an investment and network plan for:

- public transport (including the roles and functions of rail/metro/SRL), tram/light rail and expanded bus services
- roads and in particular the management of freight and commercial traffic
- ‘e-travel’ and active transport (particularly cycling).

It should prioritise and provide the support tools for place planning (aligned to pillar 4 on sustainable neighbourhoods) alongside transport planning for ‘movement’. It should include incentives and penalties to drive efficient investment in the transport network and sustainable, less polluting travel behaviours.

An identified need and legislated requirement for integrated transport planning

An integrated transport strategy is required to address the gaps in the current system and to guide the delivery of the transport infrastructure required to support Melbourne's growth. As noted in Infrastructure Victoria 2021-2051 Infrastructure Strategy "Integrated land use and infrastructure planning has been a Victorian Government goal for some time. For example, it is specifically mentioned in the Transport Integration Act 2010 and Victorian planning strategies such as Plan Melbourne. However, it is still not always evident in practice."³¹

In 2013 the Victorian Auditor General's Office found that "Over many years, the state has failed to deliver the transport infrastructure and services needed to support rapidly growing communities. This is adversely impacting accessibility and risks the future liveability of metropolitan Melbourne. Urgent action is required to address this serious problem. Inadequate public transport and growing gaps in the road network in these communities are creating barriers to mobility, including access to critical services, education and employment opportunities."³² It was estimated that over \$18 billion of state level transport infrastructure and services was required for greenfield sites in 2013, excluding the cost of maintenance and renewal"³³. For growth areas these challenges remain.

Government investment in transport infrastructure should be a catalyst for housing delivery and to facilitate the delivery of critical infrastructure. For example, the new rail projects and level crossing removals (72 of the 110 identified have been completed) present a significant opportunity that has not yet been fully realised. These projects could be delivering colocation of residential and affordable housing, new community infrastructure, and an increase in open space.

³¹ 2.1 Integrated Land Use and Infrastructure Planning - Infrastructure Victoria

³² Developing Transport Infrastructure and Services for Population Growth Areas | Victorian Auditor-General's Office

³³ Developing Transport Infrastructure and Services for Population Growth Areas | Victorian Auditor-General's Office

3.5 Housing choice, affordability, and sustainable neighbourhoods

Since the mid 20th century planning for new housing in Melbourne has mostly been about developing new suburbs on the fringe of the city. New suburbs were dominated by detached family housing dependent on car ownership and use. A number of trends have impacted housing markets and preferences. These include changing patterns of employment (with a greater share of jobs concentrated in the central city), changing demographics (with smaller households), reduced home ownership and housing affordability (as housing has increased its investment status) and new patterns of working (more female participation, the opportunity to work from home, more casualisation and more service-oriented employment). The outward growth of the city is less sustainable, and more costly for society. The challenge of building more housing in the established areas – ‘going up as well as out’ – is now perhaps the major focus of metropolitan and settlement planning. But planning for housing growth needs to balance a range of objectives: delivering greater housing choice, improving affordability outcomes, and creating sustainable neighbourhoods. More sophisticated and design conscious approaches are required that demonstrate how additional development can address changing needs and household means, while leveraging higher amenity outcomes.

New directions for metropolitan planning

Nominate aspirational housing capacity targets by municipality to guide local planning, to demonstrate achievement of the settlement vision including 70% infill and 30% greenfield metropolitan wide split.

The Plan for Melbourne should identify where future housing is expected through the inclusion of clear ‘housing capacity targets’. These are not housing targets for which councils are responsible for delivery; they are the amount of housing that planning controls must demonstrate they can accommodate. The municipality-by-municipality housing capacity targets would be established by analysis and reference to:

- The overall settlement vision including the aim for 70% infill and 30% greenfield development (within the nominated Urban Growth Boundary)
- An aspirational split for future housing development between:
- Immediate, walkable areas in and around the different types of activity centres (this is where the majority share of future development should be focussed)
- Scattered infill and suburban areas
- Broadly satisfying overall housing preferences and the need for housing diversity, and the provision of social and affordable housing
- Employment and services accessibility
- Infrastructure capacity
- Future supportable land economics/development feasibility.

Engagement with councils to establish the targets would be expected.

Detailed guidelines for how to convert capacity targets to appropriate development controls, including locational criteria to inform renewal and precinct planning, will be necessary to support local planning. Planning for housing capacity should also identify how and where social and affordable housing stock will be provided, including mechanisms for delivery such as affordable housing contributions (alongside expanded federal and state government funding and provision). Providing greater housing diversity that responds to changing demographics and reduced capacity for home ownership means more consideration needs to be given to apartments suited to children, people with disabilities and ageing households.

Further develop activity centre and neighbourhood planning approaches based on explicit housing diversity, social and affordable housing, open space, community infrastructure, active transport and net zero carbon targets.

This is the good planning lens that takes 20 minute neighbourhood planning to the next level and needs to accompany aims to boost housing supply. New housing development should be focussed in well-serviced areas for public and active transport modes. Households need access to open space, services, community infrastructure, job opportunities and social connections. Zero carbon and climate resilience should be embedded in planning for growth precincts and urban renewal. The difference from past approaches is that these outcomes need to **be explicit and measurable**. This also means appropriate state and local government commitments to outcomes, plus engagement with local communities.

Expand the mechanisms available to achieve precinct based rather than 'lot-by-lot' infill development.

A significantly expanded set of tools and mechanisms need to be developed to address the infill development challenge, while also achieving high quality design and neighbourhood development outcomes. Lot by lot development responses will not be sufficient; block and precinct level development approaches are required. These include:

- utilising open space contributions to create new open space, tree planting and pedestrian connections
- density incentives for lot amalgamations (including the Greening the Greyfields type approaches adopted by Maroondah Council)³⁴
- incentives for multiple lot amalgamation conditional on precinct-based approaches which achieve housing diversity, new open space, deep soil areas for tree canopy, reduced car usage and pedestrian-friendly streets
- investigating and utilising mechanisms which pool development rights across precincts to allow for variable densities and development outcomes but which equalise returns on a site-by-site basis.
- reducing car use in major redevelopment precincts including establishing maximum car parking rates, pricing mechanisms for car parking provision above maximums, centralised parking provision, on-street and resident parking management and considering development proposals with limited or no on-site parking in areas proximate to public transport

³⁴ <https://yoursay.maroondah.vic.gov.au/gtg1>

Lot by lot infill development is undermining liveability and 20 minute neighbourhood aims

In general terms conventional planning pathways for infill housing are working against the achievement of the 20-minute neighbourhood 'hallmarks'. The key barrier is the existing lot and subdivision patterns in suburban contexts, which are dominated by long narrow blocks meant for detached houses.

Conventional lot by lot development tends to lead to uniform, attached (side by side or back-to-back) large duplex houses, or villa units 'down' the block. The aggregate outcome across a block or precinct is a 'squeeze' on private open space (and the potential for expanded tree canopy), no new public space, no additional precinct 'walkability' from new lanes or streets, and a lack of housing diversity.

The state government's Future Homes program provides four sets of readymade architectural designs which can be purchased by developers and adapted to two amalgamated traditional house sites through a streamlined planning process. In the Housing Statement this program was expanded and now applies in locations close to transport and activity centres. There are barriers to the uptake of this program, including the need to acquire two sites and amalgamate them, as well as feasibility considerations (the build cost given the specifications, notwithstanding the streamlined development pathways, may limit the locations where the projects are viable)

An alternative range of options and interventions is required, to achieve precinct-based development outcomes where a range of objectives can be met including a mix of housing types, additional open space and streets and lanes for walking and cycling, integrated approaches to car parking and inclusion of affordable and adaptable housing.

3.6 Infrastructure for resilient communities

Accommodating growth and creating new housing requires investment in local community infrastructure, delivered at the right time, to support resilient communities.

Community infrastructure is the collective spaces and programs through which people socialise, learn, recreate, create, and celebrate culture. It is the sum of 'hard' infrastructure (community facilities) and 'soft' infrastructure (community services and programs). This includes places such as: kindergarten, childcare, maternal child health, youth services, seniors services, library, schools, higher education, health services and hospitals, performing arts spaces, indoor recreation centres, active recreation reserves, pavilions and stadiums, and passive open spaces.

Local governments have largely been tasked with financing the delivery, servicing, and management of local community infrastructure but face increasing financial pressures that impact their ability to increase their asset capacity, as well as renew and maintain existing assets. These financial pressures are a result of a range of outcomes such as rate capping, increased delivery responsibilities, increasing infrastructure costs, increasing service demands, market failure, and increasing community expectations.

Councils face a financial and planning challenge of providing new or upgraded infrastructure in both infill and greenfield growth contexts, but also in providing backlog or vital support services and infrastructure to communities experiencing social and economic disadvantage.

New directions for metropolitan planning

Commit to development of infrastructure benchmarks and guidelines as a baseline for local planning.

The State Government needs to actively support councils to develop robust community infrastructure plans. To support councils the state should:

- Prepare community infrastructure provision benchmarks, including for open space, able to be adapted for individual communities
- Community infrastructure guidelines for the local use of the benchmarks including identifying and supporting future partnership and funding opportunities.

Establish state guidance for open space contributions.

Currently there is no State Government guidance for the quantity of open space required across Metropolitan Melbourne, even while the level of available open space per capita is reducing as communities continue to grow. Access to quality open space is critical in supporting wellbeing. In order to maintain and or improve access to open space the State Government needs to provide an open space provisions standard or ratio, such as a 30sqm per capita or alternative. An appropriate standard

will support councils in undertaking adequate open space asset management planning as well as a basis for applying effective open space development contributions.

Commit to a program of state level community infrastructure support for greater infill development and support for disadvantaged areas.

This would be provided on a needs basis as identified through best practice place planning for renewal and activity centre areas, prepared in accordance with the achievement of the design and livability targets mentioned earlier.

4. Plan delivery and system efficiency

4.1 Overview

An effective plan or framework for delivery of a Plan for Melbourne and regional plans could be said to be missing. Furthermore, the planning system as a whole – including its ability to deliver the aims of metropolitan and regional plans and other strategies and policies, and the expectations of the development industry and communities – needs review and reform. The Housing Statement has not addressed the fundamental challenges confronting the system. This constrains prospects for achieving its ambitious housing supply aims, let alone achieving a liveable, productive and sustainable city.

A reform agenda to enhance plan delivery and establish a responsive system can be identified in four key areas, as follows:

1. **Governance** – how can responsibilities for implementing planning aims and strategies be allocated and strengthened?
2. **Regulation** – how can the system to regulate land use and development be improved in line with metropolitan and place planning aims?
3. **Infrastructure Funding** – are the means to raise funds for infrastructure to support planning aims ‘fit for purpose’?
4. **Resources** – what needs to change to ensure effective implementation and administration of the system?

Each of these is considered below, with a discussion of challenges and issues followed by directions for reform.

4.2 Governance arrangements

Fragmented responsibilities

Responsibility for planning is currently shared between local and state government, and with an array of departments and authorities contributing to the process (see Appendix 1). Many aspects of this structure reflect genuine and appropriate divisions of responsibility and incorporate appropriate checks and balances (for example VCAT acting as a constraint on council and Ministerial action).

However, there are also signs of unclear or split responsibilities, notably in the division of planning responsibilities between the Department of Transport and Planning, Victorian Planning Authority, and other state government bodies. This may lead to silo-isation and reduce the extent to which any single department or agency is taking overall responsibility for metropolitan planning.

Poor communication between state and local government

The fragmented authority at state level sits alongside problems with the relationship between state and local government that have contributed to difficulties in the operation of the planning system. Local councils are charged with the administration of a system over which they have relatively little control;

while the system gatekeepers and those responsible for system design at state government level have limited experience of the operational practicalities of using the system.

There is also a lack of clarity regarding the relative roles of state and local government decision-making. Some matters will genuinely be of state significance, but the current arrangements mean this distinction can be drawn on an ad hoc basis (as with Ministerial call-ins) or through arbitrary arrangements that do not necessarily reflect genuine significance (as with the array of special-purpose streams discussed in Appendix 1, including the recently added cl 53.22 – Significant Economic Development and cl 53.23 – Significant Residential Development With Affordable Housing).

An insufficient metropolitan ‘voice’

On the significant matters in a Plan for Melbourne, such as major employment precincts and activity centres, renewal areas transitioning with new housing, and city-shaping state infrastructure investment a metropolitan perspective is necessary. It could be argued that the State Government with its state-wide mandate is constrained in speaking without inhibition for a metropolitan constituency, particularly compared to local Councils who can champion their local communities. A metropolitan voice and vehicle would support effective implementation of a metropolitan plan.

The great cities and metropolises of the world have metropolitan governance arrangements, allied with local governance. For example, the Greater London Authority, Tokyo Metropolitan Government and City of New York all have metropolitan-wide strategic plan-making and transport planning functions, in parallel with local authorities having responsibilities for local places.

Lack of system stewardship

The divided – and sometimes unclear – roles of state and local government make strong communication between the two levels of government vital. Previous reviews of the system by the Victorian Auditor-General have criticised the state government’s system stewardship and stakeholder feedback mechanisms.³⁵

This situation has contributed to system neglect, and the issues with planning system design are discussed in more detail at Section 4.3. However, at a governance level, recent system reforms including those included in the Housing Statement have focussed on interventions and diversion of applications to Ministerial assessment. This sits uneasily with the findings of the recent Independent Broad-Based Anti-Corruption Commission (IBAC) Operation Sardon Special Investigation. While that investigation focussed on local councils, it specifically noted that its finding about democratic decision-making at council level were equally applicable to Ministerial decisions. The increased concentration of power in an individual decision-maker with reduced scope for appeals (particularly by third parties) increases the integrity risks in the planning system.

³⁵ Victorian Auditor-General, “Victoria’s Planning Framework for Land Use and Development”, May 2008 and “Managing Victoria’s System for Land Use and Development”, March 2017.

Integrity and governance concerns

The Operation Sardon Special Report also raised the prospect of increased use of independent planning panels for planning permit assessment as an integrity measure. This is a matter that – as IBAC noted – would require further investigation. There are legitimate challenges to maintaining democratic involvement in the system under such a model given that (as discussed in Section 4.3) the Victorian system currently leaves a great deal of policy resolution to the planning permit application stage.

It is important that planning governance arrangements create a strong partnership between levels of government that share responsibility for the management of the system. Local government’s critical role needs to be more strongly and clearly acknowledged.

An opportunity to operationalise partnerships with Traditional Owners

The Victorian Government’s support for and progress towards greater self-determination and Treaty for Aboriginal Victorians should be applauded. All six domains or policy areas for which extended Aboriginal control is being considered are relevant to metropolitan planning and related policy activity. “These domains are identified as (i) Children, Family & Home; (ii) Learning and Skills; (iii) Opportunity & Prosperity; (iv) Health & Wellbeing; (v) Justice & Safety; and (6) Culture & Country.”³⁶

The development and implementation of a Plan for Melbourne and regional plans provides the opportunity to activate partnership and treaty arrangements. Traditional Owners can be incorporated into the governance arrangements for preparation and implementation of plans.

New directions for governance reform

Reinforce the critical role for local government in plan implementation and system stewardship.

This recognises the obvious position of councils as ‘content experts’. It could be included in MAV’s proposed MOU with the state government but would be manifest in any Plan for Victoria and component metropolitan and regional plans that clearly identify and justify circumscribed matters of state and metropolitan planning significance, with all other matters the responsibility of local councils with direction and guidance provided by state government.

Two key and relevant principles for confirming the respective roles of levels of government include:

- Responsibility for planning and decision making should by default be at the lowest possible level or closest to the communities impacted, except where otherwise justified by the significance and complexity of the matter (the principle of ‘subsidiarity’)
- Councils should have the opportunity to provide appropriate and genuine input into decisions even where they are not responsible or the decision-maker.

³⁶ Federation of Victorian Traditional Owner Corporations 2022, A Comprehensive Treaty Model for Victoria, Discussion Paper 6, https://fvtoc.com.au/wp-content/uploads/2023/05/1413_FVTOC_Treaty_Paper_6_final.pdf

Establish a metropolitan planning, coordination and implementation vehicle

A comprehensive metropolitan plan needs effective metropolitan level governance and coordination. A dedicated focus on preparing and implementing the plan and its priorities is required. A spectrum of options from modest to greater institutional reform is possible. A modest option would be a standing committee of relevant State Government ministers and departmental secretaries, incorporating formal engagement with councils. A more advanced reform would be recasting the Victoria Planning Authority, giving it a tighter metropolitan focus and a new board with majority State but also Local Government elected representatives. A more significant reform would be a brand new metropolitan authority, with a 'state-local' democratic mandate and wider plan-making, infrastructure coordination and 'metro-significant' development assessment powers. Traditional owners need to also be involved as equal partners in any institutional and governance reforms (see below).

Re-boot Development Victoria for orderly and innovative development in greenfield and infill areas, with a mandate to generate net community benefits (social, environmental and economic outcomes) over commercial returns.

A re-booted Plan Victoria would play an active role in land purchase and development in greenfield and infill areas, including a focus on land assembly, demonstration projects, and partnering with developers to prepare land for development or make it ready for development. It would play a role in delivery and development to achieve the aims of the Plan for Melbourne and projects of state or metropolitan significance. This means it would prioritise net community benefit (social, environmental and economic outcomes) over narrow commercial returns.

Establish Traditional Owners as equal partners in developing and implementation

Traditional Owners should be integrally involved in decision-making about their Country. The self-determination and Treaty process in Victoria provides the platform for establishing the arrangements for true partnerships in relation to the development and implementation of a metropolitan plan for Melbourne and regional plans. A particularly relevant issue is the extent that Traditional Owners have a claim to value generated through the allocation and granting of development rights through the planning system. This needs to be better understood and explored as part of a meaningful approach to Planning with Country.

Commit to measurement of plan effectiveness

The planning pillars, and the aims and objectives that are established for them, will provide the basis for identifying measurable targets.

Establishing a realistic set of targets represents a commitment to implementation of the Plan for Melbourne and regional plans. It is consistent with government moves to consider broader wellbeing outcomes in policy development and implementation. The Victorian State Government has already moved to apply the UN Sustainable Development Goals (SDGs), which include measurable targets, to state of environment reporting at the state level. There is likely to be existing relevant targets adopted by State Government which could be used or adapted.

Examples of indicators to which targets could be attached include the following, for each pillar.

Settlement in the landscape	Areas confirmed as climate hazard free for development Tree canopy
Strong economic and employment clusters	Share of all Melbourne jobs in 'Interface Council' areas Average journey to work travel times
Transport in support of connected and compact cities	Share of journey to work trips by public transport Share of all trips by walking or cycling
Housing choice, affordability, and sustainable neighbourhoods	Share of all dwellings that are social housing. Share of all dwellings within a walkable catchment to activity centres Progress to zero emissions
Infrastructure for resilient communities	Progress to per capita parity in social infrastructure provision for residents in Interface Council areas Share of residents disadvantaged by location

4.3 Regulation

Cycles of ineffective review

The operation of the planning system has been subject to more than a dozen major reviews since the introduction of the VPP system in the early 2000s.³⁷ These have been accompanied by several major rounds of reforms, but criticisms of the planning system persist. These particularly focus on:

- lack of policy certainty and clarity
- insufficient progress in achieving key policy objectives – notably with regards to responses to housing affordability and climate change; and
- system inefficiency and delay.

These three key problems can be seen as inextricably linked – lack of policy clarity reduces system effectiveness, while at the same time making the system harder to administer and increasing regulatory burden for permit applicants.

In response, previous rounds of review have largely focussed on process reforms, many of which – such as the plethora of system streams described in Appendix 1 – have in fact increased system complexity. The reliance on targeted workarounds has diverted attention of system reform efforts away from the “core” system for everyday applications that do not qualify for special status. Because these system ‘streams’ typically involve diversion of applications to the Minister, such reforms also implicitly

³⁷ See the list at Rowley, Stephen. *The Victorian Planning System: Practice, Problems, and Prospects*, 285. The recent Independent Broad-Based Anti-Corruption Commission Operation Sardon Special Report could be added to this list.

entrench the assumption that councils are a problem requiring circumvention, rather than vital partners in the administration of the system and delivery of plan aims and objectives.

Flaws in the regulatory paradigm

The ineffectiveness of previous rounds of system review (such as the Smart Planning program) suggests that there is a need for a paradigm shift in the way the Victorian regulatory planning system functions. As part of the recent Housing Statement the government has flagged a review of the *Planning and Environment Act 1987*. However it is not clear what aspects of the Act are considered of concern. While some reforms may indeed require legislative changes, generally the key structure of the system is set by the underlying VPP framework for planning schemes.

The VPP system is based on a combination of features, notably:

- Extensive use of discretion administered through the permit process to make decisions (with the number of as-of-right and prohibited matters minimised).
- Use of a highly discretionary, principle-based policy framework to guide those decisions.

The policy-based focus of the VPP framework is optimised for making decisions about matters that require a fully bespoke first-principles assessment. However, it is much less suited to dealing with common application types efficiently.

This approach leaves a great deal of policy resolution to the planning application stage. This has created an efficiency burden, as applications become harder to process and applicants have less clarity about acceptable outcomes. It reduces the effectiveness of the system, as outcomes are less dependable and resolution of policy questions frequently shifts to forums such as VCAT. And as the Operation Sardon Special Report noted, the “broad scope of plausibly correct decisions” can foster integrity concerns by making inappropriate and improper decisions harder to pinpoint.

A proliferation of “workarounds”

Recent years have seen a proliferation of special streams and assessment clauses designed to facilitate certain categories of development (see discussion in Appendix 1). These often involve Ministerial / Departmental assessment of qualifying proposals. This has further complicated the allocation of planning responsibilities between state and local government.

It is increasingly clear that the VPP, and the principles of system design underpinning them, will need significant reform to achieve more effective, efficient and transparent implementation of planning goals.

New directions for planning system and regulatory reform

Undertake a regulatory audit of the VPP provisions for plan delivery and planning system efficiency,

This would have a focus on:

- Reviewing whether regulatory provisions reflect strategic intent
- Ensure provisions accord with regulatory best practice (see breakout box below)
- Aligning the type of provisions with the complexity of matters
- Improve guidance for regular application types and high priority policy issues such as housing supply and climate change
- Aligning processing and assessment of applications with the most appropriate decision-maker

Recognise councils as co-stewards of the planning system, including through structured stakeholder engagement and feedback in system reforms.

Provide more structure and rigour to the way variations to discretionary provisions are considered and assessed through VPP reform and guidance documents.

Best Practice Planning System Design

There is a need for a realignment of the planning system to provide more clarity in the management of the system and to ensure that responsibilities are vested with the most appropriate body at all levels of the system.

Alongside this, the provisions themselves need comprehensive review to ensure that planning schemes are providing clear guidance and proportionate assessment pathways.

The following diagram illustrates how some of these regulatory design principles can be aligned with appropriate governance arrangements in the development assessment system.³⁸

FIGURE 4: ALIGNMENT OF RESPONSIBILITIES AND SYSTEM RESPONSES IN THE PLANNING SYSTEM

Complexity	Simple	Moderate – foreseeable but hard to codify	Strategically important and consequential, novel, complex
Policy design	Codify and remove from the system	Clear descriptions of intended outcomes (e.g. use, density and height).	Principle-based controls
Assessment type		Primarily technical assessment	Policy interpretation and judgement required – may raise significant policy questions
Notification and review		Limited to directly impacted parties	Available to third parties (unless compelling case otherwise)
Assessment / recommendation		Council officers	Council officers / independent panel
Decision-maker		Council officers / independent panel	Metropolitan authority / Minister

This framework conceives of applications within a spectrum of increasing impact and risk, and associated assessment complexity. This can approximately be divided into three categories: low impact applications that raise few if any genuine planning issues; the common applications requiring assessment, but which raise known or foreseeable issues; and more strategically complex or novel applications. This seeks to embed the following principles of system design.

³⁸ This framework builds on recent work by the Planning Institute of Australia's Victorian Division (<https://www.planning.org.au/documents/item/12618>) as well as Rowley, Stephen, *The Victorian Planning System: Practice, Problems, and Prospects* Second Edition, Federation Press, 2023).

The system should be targeted to where it adds value

At the level of policy and scheme design, the system should aim to remove the simple applications from the system wherever possible, by better targeting the system to define acceptable outcomes and remove permit requirement.

The system should give clear answers to common dilemmas

Common applications are less likely to be removed from the system, but schemes should aim to give as much clarity about intended outcomes as possible, for example through detailed descriptive policy or form-based codes (a density measure such as Floor Area Ratio, a core element in all planning controls in NSW, could be considered).

The system should provide a principles-based framework for novel matters

For complex applications, there is less likely to be clear policy guidance and the principles-based guidance of the Planning Policy Framework becomes more important to guide first-principles strategically driven decisions. (The Victorian system is currently well-attuned to this kind of application.)

Assessment pathways should align with risk, importance, and complexity

Assessment pathways should follow from the above scheme settings. Simple applications ideally will not require assessment. Planning judgement will be required for the common applications, although this should primarily involve assessment against codes and guidance formalised in the scheme. The complex and novel applications require more first-principles policy judgement and strategic decision-making.

Notice and review rights are an important part of the system

Notice and review rights have long been embedded in the Victorian system and play an important role in maintaining the system's democratic accountability and integrity. These rights should not be removed or traded as part of fast-tracking exercises. Instead, the extent of third-party involvement should flow from the importance of the matter.

The decision-maker should align with the importance and impact of decisions

The choice of decision-maker should follow in a logical manner from this framework. Councils should remain central to processing of the applications, with the bulk of common applications processed at officer level. More significant applications can then be elevated to councillor decision-making. It is appropriate for the Minister to make decisions on matters of genuine state significance, with a genuine role for input and support from councils.

Elected decision-makers should always respond to independent and publicly available reasons

The IBAC Operation Sandon report advocated for independent planning panels to make decisions in response to concerns about councillor conduct. The Victorian Auditor-General has previously expressed concern about governance of Ministerial decision-making, particularly with regards to the reasons provided for decisions (as the Minister does not typically provide or respond to a publicly available assessment. This model responds to these findings by adding a role for a metropolitan authority – which would include council representation – to prepare reports with publicly available recommendations to underpin council and Ministerial decision-making. There may also be scope for some decisions to be made by the authority itself.

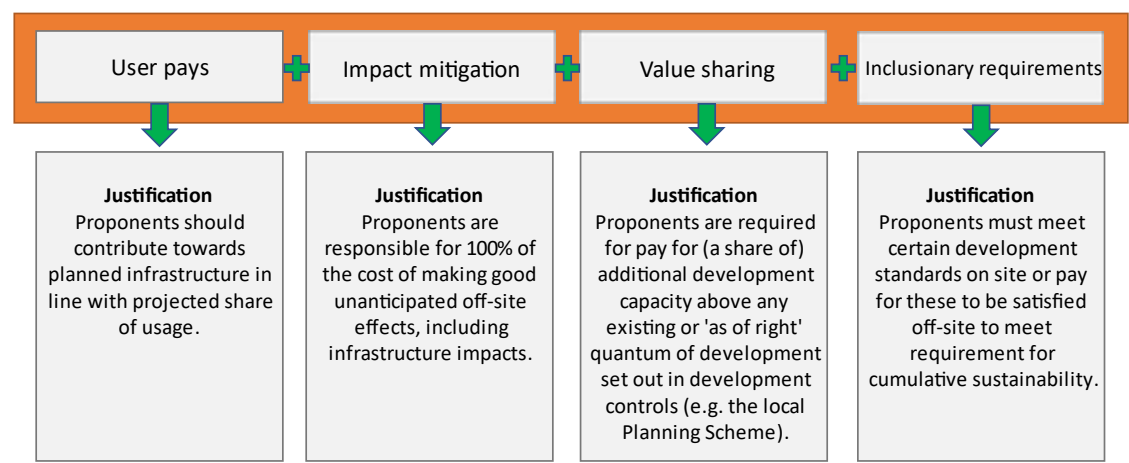
4.4 Infrastructure Funding

A full suite of fit for purpose development contributions is not available to support growth

A fit for purpose infrastructure funding system is vital, particularly for local councils who are at the front line of supporting growth.

SGS has long advocated that development contributions in general fall into one of four mutually exclusive and additive categories, as shown in Figure 5.

FIGURE 5: FOUR FRAMES OF DEVELOPMENT CONTRIBUTIONS



These 'frames' are helpful in understanding existing development contributions in the Victorian system, and identifying issues and gaps.

User pays charges are the basis of Development Contribution Plans, where future infrastructure costs are apportioned to future development. These are widely used in the metropolitan area and establish an appropriate discipline for councils to undertake forward planning for local infrastructure. In theory they also provide 'price signals' to direct development to 'least cost' locations in the first instance (because new development will pay a lower cost where existing infrastructure is available or has capacity).

Some councils have not prepared DCPs in renewal areas or have not kept them up to date. In these cases, vital funding for infrastructure is being foregone. Support for the preparation and management of DCPs needs to be improved with more assistance and tools. In some infill areas it may be onerous to prepare full and detailed DCPs.

Impact mitigation contributions would typically be imposed as permit conditions or established through a section 173 agreement (negotiated in-kind infrastructure contributions provided by developers). Greater clarity on this development contribution category, examples of infrastructure it could cover, and how it can be quantified and applied would support councils.

Value sharing, or ‘value capture’ contributions are premised on the state reservation or ‘ownership’ of development rights³⁹. They are imposed in two principal ways in Victoria; via the Growth Areas Infrastructure Charge (GAIC) which applies to ‘greenfield’ development with the Urban Growth Boundary, and the Windfall Gains Tax (WGT) introduced to capture gains associated with land value uplift from planning decisions. The WGT doesn’t apply to GAIC affected land within the UGB, and the de-facto value capture charge represented by the GAIC in these areas has fallen behind in effectively capturing value uplift. A dual system of state levied charges and taxes associated with development has emerged.

Furthermore, the WGT presents the prospect of competing and contested valuations for the post and pre rezoning values, upon the difference of which the WGT will be based. This raises the prospect of undesirable and increased uncertainty in the development process. A foundational principle is that a developer of land should be able to reasonably estimate the costs associated with future development – alongside revenue estimates – recognising prospects for changes at the margins, so that bids for land can reflect this knowledge. The WGT regime may not be sufficiently transparent about the prospective WGT to enable this.

The call for a mechanism to capture windfall gains in the Operation Sardon report presents the opportunity to establish a unified state level value capture mechanism, to apply in both greenfield and non-greenfield contexts.

Inclusionary requirements are established via, for example, mandatory car parking provision rates in Planning Schemes and open space contributions in the subdivision legislation. These examples, and other expectations of development in the planning system, illustrate how inclusionary requirements are a means of providing ‘essential infrastructure’ which we take for granted in creating liveable communities. This perspective highlights how social and affordable housing might also be an inclusionary requirement, considered as critical or essential infrastructure at a local level.

In 2022, the Victorian Government announced a 1.75 per cent Social and Affordable Housing Contribution (SAHC) on all new developments of three or more dwellings in metropolitan Melbourne. This was to provide funding for approximately 1,700 new social housing units annually.⁴⁰ This was in effect a widely applied inclusionary levy. This landmark reform was abandoned a week later.⁴¹

³⁹ Australian Government (July 2023) Barriers to Institutional Investment, Finance and Innovation in Housing, Interim National Housing Supply and Affordability Council, https://nhsac.gov.au/_assets/downloads/barriers-to-institutional-investment-report.pdf

⁴⁰ Building a Secure Housing Future for Victoria, <https://www.premier.vic.gov.au/building-secure-future-social-housing-victoria>

⁴¹ Premier of Victoria, Statement on Planning Reform Package, 01 March 2022. As at <https://www.premier.vic.gov.au/statement-planning-reform-package>

New directions for infrastructure funding

Establish a ‘pre-scheduled’ value capture contribution (‘development licence fee’) to replace the Windfall Gains Tax and GAIC with council land exempt and a share of revenue distributed back to councils.

An explicit or ‘known’ development licence fee would be calculated on the uplift in value generated through more intensive use of land made possible by development consents or rezonings, varying as a \$/sqm rate by use by precinct. The system would be similar to the Lease Variation Charge in the ACT where, through the leasehold land tenure system, the Territory Government explicitly retains ownership of development rights. Development proponents must pay a charge geared to 75% of the uplift in lease value once planning permission has been secured.

There is a strong case to be made that council land should be exempt from a value capture charge or development licence fee, where it can be demonstrated that land value uplift is utilised for delivering public benefits. Furthermore, a share of any revenue generated by this development licence fee, should be returned to local government, based on growth shares or some other relevant criteria, to assist in infrastructure funding.

Establish a system of standard rates for local development contributions in parallel with DCPs

This would refine the current system of Infrastructure Charges Plans by enabling councils to choose ‘off the shelf’ infrastructure charges that vary by development context and/or place typology (e.g. activity centre, renewal area, suburban infill and greenfield) and are set conservatively (i.e. lower) than what is likely to be possible via an appropriately prepared DCP. The DCP pathway would still be available.

Local infrastructure planning linked to land use change would be anticipated in pursuing either approach.

Establish a mandated Social and Affordable Housing Contribution

The development process has a role to play in the delivery of (subsidised) social and affordable housing, as essential infrastructure benefitting all development and communities. Councils, the development industry and community housing providers have all identified that the current approach of site by site negotiations is ineffective so a mandatory contribution is required. The previous proposal for a Social and Affordable Housing Contribution should be revisited and revised to ensure a broad base of development is liable, contribution amounts are as clear as possible, and to minimise disruptions to existing development (i.e. introduced with a reasonable lead time of say 2-3 years and then phased up with the rate of contribution low initially and increasing over time).

Local government should be involved in advising on where and how contributions would be invested, having regard to housing needs and demands and meeting strategic planning objectives.

4.5 Resourcing

Local government in Victoria faces a financial sustainability gap

The Municipal Association of Victoria (MAV) and Local Government Finance Professionals (FinPro) recently developed a dataset to demonstrate the financial sustainability of Victorian councils.⁴²

It identifies four risks to financial sustainability, some of which have already been mentioned in this paper:

- Deteriorating underlying surplus across local government
- A significant asset renewal gap
- The compounding effect of a rate cap which has consistently been set below the cost increases experienced by councils
- A limited and reducing unrestricted cash position of many councils.

Local government's financial autonomy and capacity when confronted with increased responsibilities and the need to play a meaningful role in partnership with the state government to manage the growth challenge needs to be addressed.

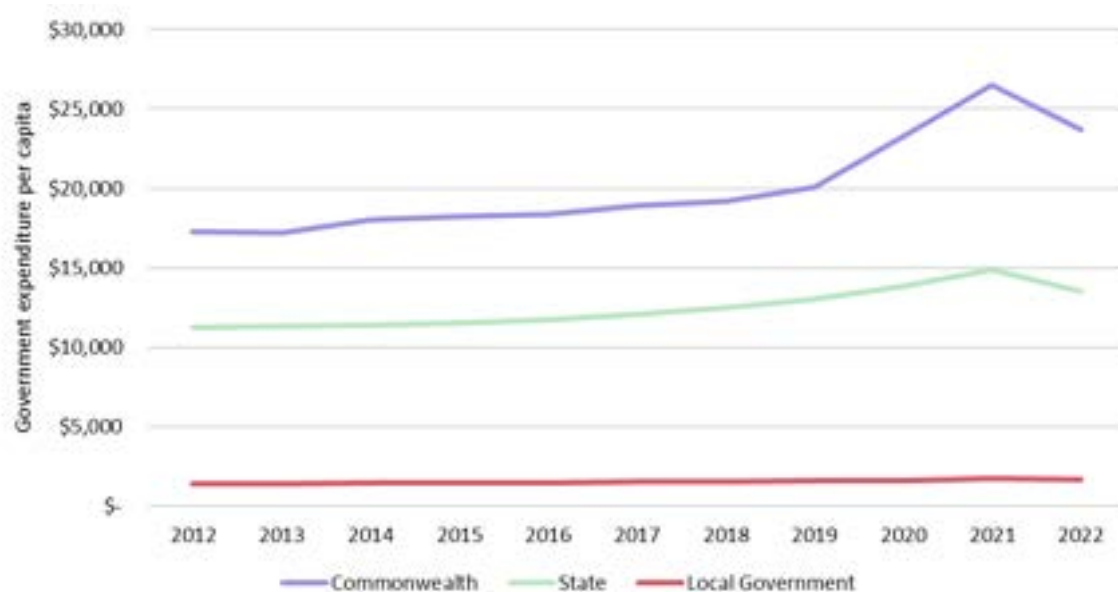
As the dataset document points out:

Councils are often perceived as being financially strong based on total cash holdings. It is critical to understand that much of this cash is 'restricted' in nature, linked to statutory or contractual obligations such as developer contributions for the funding of infrastructure. Unrestricted cash has been steadily decreasing. This decline potentially affects the ability of councils to make discretionary investment in local priorities and aspirations. Reduced unrestricted cash also reduces the capacity and ability of Council's to maintain infrastructure and react effectively in the event bushfires, floods, or other emergencies.

This reduced unrestricted cash position is at significantly linked to the State Government imposed system of rate-pegging in Victoria, which imposes a revenue raising restriction on local government that isn't applied to other levels of government. Figure 6 shows that while state and Commonwealth government expenditures per capita have been gradually and then rapidly increasing over the past decade (with a dip post-Covid), local government expenditure per capita has remained stagnant (and has thereby declined in real terms given inflation), remembering that rate-pegging is in place in New South Wales and other states as well.

⁴² The Sustainability Gap – the financial health of Victorian councils, <https://new.parliament.vic.gov.au/4ad645/contentassets/af06ba8f75c9461cbcc882e54ae82b8d/mav---handout.pdf>

FIGURE 6: GOVERNMENT EXPENDITURE PER CAPITA IN AUSTRALIA BY GOVERNMENT SECTOR (2012-2021)



Source: ABS, 2022, Government Finance Statistics, Annual, 2021-22 financial year

A severe shortage of planning staff and resources

The achievement of planning objectives, and general planning system functioning, is being compromised by a severe shortage of urban and regional planners.

The Planning Institute has noted that ‘the worsening skills shortage was revealed in Jobs and Skills Australia’s (JSA) annual Skills Priority List, which shows that ‘urban and regional planner’ was one of the occupations assessed as being in shortage in 2023 but not in 2021...with a shortage in every state and territory except the ACT’.⁴³

Even in 2019 the MAV called for ‘the Victorian Government, councils, and the planning profession work together to address the skills shortage and boost the number and capability of planners within local government’⁴⁴. This shortage of planners is being felt in metropolitan Melbourne and by most councils.

⁴³ PIA, New data shows growing shortage of planners, <https://www.planning.org.au/news-archive/2021-2023-media-releases/new-data-shows-growing-shortage-of-urban-planners---bad-news-for-housing-regional-communities-transition-to-net-zero>

⁴⁴ MAV (2019) Planning and Building Approvals Process Review Discussion Paper, https://www.mav.asn.au/__data/assets/word_doc/0019/24256/Submission-to-Red-Tape-Commissioner-Planning-and-Building-Approvals.docx

New directions for local government resourcing

Remove rate capping for enhanced fiscal independence of local government.

Supporting and recognising local government as a true partner in implementation requires an increase in the sector's fiscal and operational autonomy. Removing or reforming rate capping, with appropriate accountability, to liberate councils to match revenues to increasing responsibilities, and meet community expectations and needs for better infrastructure and services, is an overdue reform.

Provide targeted funding for planning scheme amendment work undertaken by local government.

Keeping planning controls up to date and consistent with the Plan for Melbourne or regional plans is a critical and fundamental role of councils. A new Plan for Melbourne and regional plans, and an upfront investment in a supporting Operational Plan and improved ministerial guidelines, will reduce costs in plan-making and planning scheme amendments but the latter are still costly to 'get right'. A dedicated revenue source for the work of councils on planning scheme amendments is warranted. This could potentially come from the revenue generated by the proposed 'development licence fee' (value capture charge) or from an expanded Metropolitan Planning Levy or new Regional Planning Levy.

Work with local government to prepare a workforce plan for strategic and statutory planners.

Addressing the shortage of planners is an urgent priority. The state government should make this a priority, working alongside local government, the industry and the education sector.

5. Whole of government operational plans

A Plan for Melbourne that fully addresses the five pillars agenda will inevitably be ambitious in scope with implications for the activities and actions of multiple stakeholders within and outside of government. The reforms across governance, regulation, infrastructure funding and resourcing will also establish new capacity for effective implementation across government and local government, enabling a greater 'whole of government' and coordinated capability than currently exists (noting also the current fragmentation of responsibilities discussed earlier in section 4.2 and in Appendix 1).

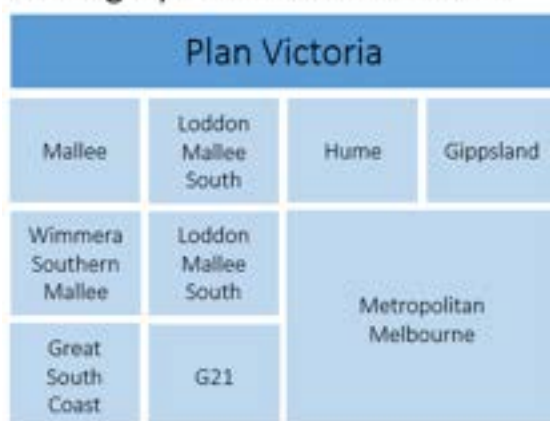
To ensure a coordinated approach to progressing the plans' strategic objectives, a separate operational plan is recommended (one for each metropolitan and regional plan is also suggested).

Prepare a separate operational plan to guide whole-of-government implementation of strategic plans

Plan Melbourne was accompanied by an implementation plan and annual progress reports – but was meant to also be supported by sub-regional land use framework plans to resolve detail at a finer grain level (these were never finalised). The prospects for effective implementation of metropolitan and regional plans can be strengthened with an operational plan that combines and enhances the intent of this previous implementation framework by focussing on priorities and roles, prepared via a participatory process involving local government, key agencies and authorities.

The operational plan(s) should embody a manageable agenda, with realistic resourcing requirements, and be dynamic and updated regularly. This is in contrast strategic plans that are or should be, by design, long-lived rather than contingent.

Strategic plans to set directions



Operational plans to guide actions



Appendix 1 Current governance arrangements

The management of the planning system is currently shared between state and local government. While this is common in Australian jurisdictions and has advantages in ensuring consistency and policy coordination, it also presents challenges. The structure of planning governance has also contributed to system complexity.

State government, local councils and the VPP planning system

The state government controls the planning system, with the system operating under state legislation (the central pillar being the *Planning and Environment Act 1987*) and the Minister for Planning having final approval power over all content in planning schemes. This is achieved through the requirement that the Minister approve all planning scheme amendments, as well as through the control of the underlying toolkit of the Victoria Planning Provisions (VPPs). These are the toolkits out of which planning schemes must be assembled, and include state-wide policy provisions as well as a suite of standard planning tools. The state government also sets overarching strategy, which relevantly includes the Melbourne metropolitan strategy *Plan Melbourne 2017-2050*.

The state government therefore controls the legislative framework, sets the key policy directives, and has stewardship over the planning system itself.

Within this framework local government set more detailed policy for their local area (subject to Ministerial approval). They also undertake most of the day-to-day administration of the system by processing and deciding most planning applications.

State Government Departments and Agencies

The primary support for the Minister for Planning as custodian of the system is the Department of Transport and Planning. This provides system stewardship across governments and undertakes some Ministerial functions under delegation.

However an array of other government agencies contribute to metropolitan planning outcomes, notably:

- The Victorian Planning Authority: an authority focussed on structure planning for growth areas and major urban renewal precincts.
- Infrastructure Victoria: an advisory authority that provides advice to government about infrastructure.
- Development Victoria: the government's property development and urban renewal corporation.
- Homes Victoria: A subsidiary of the Department of Families, Fairness and Housing focussed on delivering social and affordable housing.
- Referral authorities: Many different agencies provide expert input into planning decisions that affect specific interests as referral authorities. Examples include the Environment Protection Authority, transport authorities, utility companies, and catchment management authorities.

VCAT and Planning Panels Victoria

The Victorian Civil and Administrative Tribunal (VCAT), through its Planning and Environment Division, acts as the appeals body for disputes around planning permit decisions, along with a procedural disputes about planning processes.

While VCAT decisions do not have the status of formal legal precedent, as the usual final arbiter of contested planning matters, VCAT's approach serves an important role in shaping planning practice. While VCAT is not intended to take a policy role, in practice the Tribunal may also play a role in shaping outcomes where difficult calls are left to the Tribunal, or where system neglect or lack of clarity in policy leaves it determining important issues.

Planning Panels Victoria is a body nested within the Department of Transport and Planning that provides staffing and administrative support to advisory bodies under several pieces of legislation, notably planning panels (which advise the Minister about planning scheme amendments), advisory committees (ad hoc committees appointed to consider a specific issue at the direction of the Minister) and environmental effects inquiries (which are part of the environmental impact assessment process undertaken under the *Environment Effects Act 1978*).

Ministerial Interventions, Call-ins and Special Purpose Streams

While the overwhelming majority of planning decisions are made by local government, the Minister for Planning has multiple routes to decide applications if they wish to.

For example, the Minister may:

- “Call in” and determine applications on an ad hoc basis from the council.
- “Call in” and determine applications from VCAT.
- Amend the scheme to make themselves the responsible authority for particular proposals, locations, or categories of proposal.
- Amend the scheme so that a proposal does not need a permit, or to embed an approval within the scheme.
- Amend the scheme and issue a planning permit simultaneously to approve a proposal (including in instances where a development would be prohibited under current controls).

In addition, an increasing array of provisions have been included in planning schemes to provide special assessment provisions or processes for certain categories of development. These are typically related to government projects, delivery of housing, or matters deemed of high economic value. Examples include:

- Clause 52.20 – Victoria' Big Housing Build
- Clause 52.30 – State Projects
- Clause 52.31 – Local Government Projects
- Clause 52.35 – Major Road Projects
- Clause 52.36 – Rail Projects
- Clause 53.19 – Non Government Schools

- Clause 53.20 – Housing By or on Behalf of Homes Victoria
- Clause 53.21 – State Transport Projects
- Clause 53.22 – Significant Economic Development
- Clause 53.23 – Significant Residential Development With Affordable Housing
- Clause 53.24 – Future Homes.

Several of these clauses were added or expanded in scope as a result of the recent Housing Statement, summarised earlier, suggesting an increase in focus on these mechanisms.

For less consequential developments, the VicSmart program provides a stream for proposals that are exempt from notice and not subject to a councillor decision (as the council's CEO is made the responsible authority).

The structure above is in part a reflection of a deliberate attempt (espoused in several system reviews) to increase the number of system "streams" to provide additional system flexibility to deal with applications of different sizes. However it also reflects a tendency toward system workarounds that bypass normal processes for favoured application categories.

CANBERRA / NGAMBRI /
NGUNNAWAL / NGARIGO

Level 2, 28-36 Ainslie Avenue
Canberra ACT 2601
+61 2 6257 4525
sgsact@sgsep.com.au

HOBART / NIPALUNA

PO Box 123
Franklin TAS 7113
+61 421 372 940
sgstas@sgsep.com.au

MELBOURNE / NAARM

Level 14, 222 Exhibition Street
Melbourne VIC 3000
+61 3 8616 0331
sgsvic@sgsep.com.au

SYDNEY / WARRANG

Suite 2.01/50 Holt Street
Surry Hills NSW 2010
+61 2 8307 0121
sgsnsw@sgsep.com.au



Shaping regional and rural Victoria: A discussion paper

for the Municipal Association of Victoria

21 December 2023





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SGS Economics and Planning Pty Ltd
ACN 007 437 729
www.sgsep.com.au

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APPENDIX 1

A positive planning agenda for regional and rural Victoria

A Plan for Victoria, or Plans for Melbourne and the Regions?

The Victorian Government's Housing Statement was released in September 2023. It introduced 'streamlined' pathways for housing related development assessments including a greater Ministerial role. The Housing Statement also includes a commitment to updating Plan Melbourne 2017-2050, with a new whole-of-Victoria focus, and further planning reform via a review of the Planning and Environment Act 1987.

The MAV has commissioned SGS Economics and Planning to prepare a Discussion Paper addressing 'what a Plan for Victoria should include and how the planning vision could be delivered, with local government acting as a valued and indispensable partner'.

A statewide plan as proposed by the Government, or at least a state-wide planning framework, should be supported. It provides the opportunity to establish a compelling long-term vision for development across the state, which fully addresses the relationship between Melbourne as the dominant urban centre, peri-urban areas so dependent on their relationship to Melbourne, and regional centres and hinterland rural areas. It provides the opportunity to establish an aspirational target for the split of future population between metropolitan Melbourne and regional Victoria.

However, in our view, **a single Plan for Victoria is not sufficient**. It can't adequately recognise or distinguish the distinct metropolitan, regional and rural communities of interest, and their unique spatial characteristics and needs. The complexity of metropolitan Melbourne as an integrated labour market, requiring inter-connected thinking about housing, employment centres and clusters, transport, the environmental context and the host landscape, deserves its own comprehensive plan. As they face different issues, regional and rural areas also deserve distinct plans that recognise communities of interest.

Plans for both Melbourne and the regions are required to address distinct and growing challenges. A bold and positive agenda for these plans is proposed in this Discussion Paper, with local government positioned appropriately at the heart of implementation, recognising its role as content experts and local place custodians.

Growth projections

The Victorian Government's official population forecasts suggest that regional Victoria's **population will increase between 2021 to 2051 by 646,000 people to 2.28 million**. To accommodate this growth about 12,000 additional dwellings will be required every year – **or 233 dwellings per week**.

In 2021 Victoria's population split was 72.5 per cent in metropolitan Melbourne and 27.5 per cent in regional areas. Looking forward Victoria in Future assumes regional Victoria will only accommodate 17 per cent of the additional population growth to 2051, implying an ever reducing share of development and economic activity in the regions.

The potential to accommodate a greater share of the future population in regional areas should not be discounted. With pro-active planning and supportive major infrastructure investment, including prioritising fast connections to central Melbourne, and investment in regional economic development, major regional centres, peri-urban areas and amenity rich smaller towns could accommodate additional population and jobs growth than the official forecasts suggest.

While regional Victoria has enormous growth opportunities environmental, social and economic challenges need to also be addressed.

- Climate change is bringing more hazardous events such as flooding and bushfires. The Black Summer of 2019-20 was catastrophic and traumatised many regional communities; the 2022 floods which inundated and damaged homes revealed how at-risk areas should never host new housing. Ecosystems and biodiversity, and land used for food production need protection. Sea level rise and inundation is a risk that needs consistent consideration in future development management. In many parts of regional Victoria growing the fastest, the areas available and suitable for new development are shrinking.
- Higher rates of sustained growth will depend on deepening the pool of higher value business services employment opportunities, particularly in the major regional centres. Currently only 16 per cent of jobs in regional Victoria are in these business services or 'knowledge' sectors, compared to about 27% in metropolitan Melbourne. More business services jobs in regional centres will strengthen value chains, including those associated with agricultural and mining production, make the regions attractive to a wider range of workers and underpin wealth creation,
- The complexity of uses, and competition for land, is increasing in rural areas. The popularity of rural (non-farm) living, structural shifts in regional economies (including towards 'corporate' farming), and land needs for the energy transition to renewables, are all challenging traditional agricultural uses, including reducing food production capability. Compounded by climate change, such risks to rural economic sustainability are only likely to increase.
- Many greenfield development areas in regional Victoria are hampered by a lack of scale and consistent development momentum. Issues include difficulties in sequencing or coordinating land for release because land is withheld (e.g. owners are not ready to sell or are content using the land for another use), or ownership is fragmented (including sometimes in restrictive rural and low density residential zones), and an inability to feasibly 'forward fund' development infrastructure (like drainage or major roadworks) which is critical to enable development to occur.
- The Government's target for 70 per cent of new housing in regional Victoria to be in 'infill' or the established parts of towns and cities is a very ambitious one. Fundamentally, infill development which implies medium to high density dwellings, is riskier in regional Victoria. Developers favour the form they know will reliably sell, which is detached dwellings. This is self-reinforcing because it also means there is generally a shallow local industry capacity for more diverse non-traditional housing types.
- Growth has often been faster in regional areas than anticipated by the 2014 and now outdated Regional Growth Plans and official population forecasts. As new growth areas have been identified so have calls and demands for key items of state infrastructure such as arterial roads, public transport upgrades and new social infrastructure such as schools. Pressure on sensitive environments has increased. The funding and investment challenge for State Government to provide infrastructure across multiple fronts has compounded. Sometimes infrastructure provision has 'lagged' such that new development areas have not been able to develop as intended.

- Until the Covid 19 pandemic the availability and affordability of housing in regional Victoria was not a particular area of policy focus or wider interest. The increased attractiveness of non-metropolitan areas during and immediately after the pandemic disrupted often shallow housing markets and a new regional dimension to the affordability crisis emerged. Despite the arguments of some, there is very limited evidence that building more private market housing alone can address the housing affordability crisis affecting so many residents. An enduring re-investment in social and affordable housing, and for regional areas in particular key worker housing (alongside other taxation and macro-economic policy support), and support for alternative community, tenure and ownership types, is also required.

To address these and other challenges new directions across ‘five pillars’ for regional and rural planning and four implementation themes are identified.

More than housing: five pillars of regional and rural planning

Region-scale strategic planning should be based on an overall vision for the future settlement structure of the region. It identifies the broad extent of urban or settlement areas; identifies the relative economic and service roles of regional cities, towns and smaller settlement areas; provides clarity on the future and use of agricultural and rural areas which underpin the export wealth of regional economies; identifies where other major industrial and employment lands are to be located, supported by transport connections; identifies where new housing is to be provided consistent with the desired future settlement structure, while also ensuring that support infrastructure and services are efficiently provided; and how governance and delivery systems will support place-based outcomes. The best strategic planning establishes clear spatial and place-based development directions supported by community exposure and engagement.

Strategic regional planning is crucial to creating a ‘line of sight’ for assessing the merit of development proposals and in translating objectives into planning controls at the local level.

The State Government’s current regional strategic planning directions are contained in Regional Growth Plans (RGPs) dating from 2014. The suggested directions in this discussion paper address new and emerging challenges expressed under five regional and rural planning pillars:

1. **Respecting and integrating Country and landscape** which should be supported by: meaningful Planning with Country; comprehensive and consistent state-led bushfire, flood and sea level rise mapping; confirmed ‘growth boundaries’ for major centres; and effective policies to achieve tree canopy aims and a greater extent of ‘blue-green’ infrastructure for cooler town environments.
2. **Strong centres and employment clusters** means focusing on attracting business services or ‘knowledge’ sector jobs to the major regional centres, including directing government jobs to these centres; as well as the preparation of a Regional Industrial and Commercial Land Use Plan to provide for strategic industrial land hosting critical distributed economic and enterprise activities.
3. **Enhancing rural and agricultural economic activities** beginning with clearer and better mapping of areas for agricultural protection, following by a much stronger planning framework to support the sustainability of agricultural and rural land uses – recognizing the increasing competition for rural land, the need to support the transition to renewable energy generation and climate hazards.

4. **Housing choice, affordability and sustainable neighbourhoods** with aspirational housing capacity targets for each council area and identification of major residential growth precincts demonstrating how the future settlement vision will be achieved, supported by policy guidance showing how social and affordable, and key worker housing, liveability, open space and zero carbon targets can be achieved.
5. **Infrastructure for growing and resilient communities** including aligning the State Infrastructure Strategy with the growth directions included in regional strategies, the development of consistent state provided benchmarks and guidelines for community infrastructure and open space to enhance local planning and place outcomes.

A broad-based reform agenda that recognises local government's core role in plan implementation and system effectiveness

An effective plan or framework for delivery of regional plans is missing. For regional areas there is an urgent need for new regional plans, given the age of the RGP, but it is just as important to establish an effective implementation framework.

The planning system as a whole – including its ability to deliver the aims of future plans for Melbourne and the regions, and other strategies and policies, and meet the expectations of the development industry and communities - needs review and reform. The Housing Statement has not addressed the fundamental challenges confronting the planning system. These constrain prospects for achieving its ambitious housing supply aims, let alone the liveable, productive and sustainable goals of regional planning.

Directions for reform to enhance plan delivery and establish a responsive system can be identified in four key areas, as follows:

1. **Governance** – The critical role for local government as a content expert and partner in implementing planning aims and strategies should be re-affirmed, alongside the establishment of a strengthened regional plan development, coordination and implementation arrangements that involves local government and Traditional Owners, with an expanded and re-booted role for Development Victoria for demonstration and actual delivery of housing and place aims.
2. **Regulation** – with planning reform to better align responsibilities and system responses in the planning system (see figure overleaf) including an audit of the VPP provisions for plan delivery and system efficiency, and to confirm councils as co-stewards of the planning system.
3. **Infrastructure Funding** – This is about the ability to raise funds for infrastructure to support planning aims and should: include a 'pre-scheduled' value capture contribution (or 'development licence fee') with council land exempt and a share of revenue distributed back to councils; recognizing the development catalysing role of water authorities in the regions by better aligning their investment programming with regional land use planning; 'finish' the Infrastructure charges plans reforms by establishing a system of standard rates for local development contributions in parallel with Development Contribution Plans alongside a facility for early or forward financing of major infrastructure; and establish a state-wide and mandated Social and Affordable Housing Contribution (similar to the abandoned 2022 proposal).

4. **Resources** – Ensuring effective implementation and administration of the system, requires the removal of rate capping to enhance the fiscal independence of local government, the provision of targeted funding for planning scheme amendment work undertaken by local government, and the preparation of a workforce plan to expand town planning staff.

ALIGNMENT OF RESPONSIBILITIES AND SYSTEM RESPONSES IN THE PLANNING SYSTEM

Complexity	Simple	Moderate – foreseeable but hard to codify	Strategically important and consequential, novel, complex
Policy design	Codify and remove from the system	Clear descriptions of intended outcomes (e.g. use, density and height).	Principle-based controls
Assessment type		Primarily technical assessment	Policy interpretation and judgement required – may raise significant policy questions
Notification and review		Limited to directly impacted parties	Available to third parties (unless compelling case otherwise)
Assessment / recommendation		Council officers	Council officers / independent panel
Decision-maker		Council officers / independent panel	Metropolitan or regional authority / Minister

To ensure whole of government and inter-government clarity on roles and responsibilities the preparation of a **separate operational plan** is proposed.

5 Pillars of regional and rural planning	New directions
<p>Respecting and integrating Country and landscape</p> <p>Development in regional areas and rural economic activity should respect and minimise impacts on biodiversity, precious landscapes, waterways and natural resource catchments. Vastly improved approaches to environmental sustainability are required - particularly in the face of climate change which existentially threatens some ecosystems and living environments. Sensitively planning with and for Country – respecting the Aboriginal approach to stewardship and care of soils, plants and water over thousands of years – will be at the heart of these new approaches.</p>	<ul style="list-style-type: none"> Commit to Planning with Country. Commit to bushfire and flood mapping to identify areas unsuited to development or intensification Commit to universal minimum floor level standards for sea level rise to be applied to all coastal LGAs. Confirm growth boundaries and areas to be protected from future development Establish and maintain networks of ‘green’ and ‘blue’ infrastructure within new and established areas, through tree canopy requirements and reforms to open space contributions.
<p>Strong centres and employment clusters</p> <p>The role and function of regional cities and towns vary significantly. Regional cities have grown strongly as service hubs. Small towns in remote areas still play a vital local service role. Other towns may be relatively static or even declining. This network of cities and towns provides the ‘structure’ for regional economies and needs to be understood and supported through regional planning. Services employment is best clustered and located in centres to maximise accessibility to residents and workers, and where they can benefit from ‘agglomeration’ (that is from business competition and collaboration). Industrial and employment land areas need to be provided for the trades, urban services, storage, manufacturing, and freight functions which are still crucial in supporting regional and rural economic activities</p>	<ul style="list-style-type: none"> Identify a regional cities and towns hierarchy to support their different roles and functions. Prepare a Regional Industrial and Commercial Land Use Plan which includes clear monitoring and planning and infrastructure investment guidance for local, regionally significant and state significant industrial areas.
<p>Enhancing rural and agricultural economic activities</p> <p>The less settled, rural areas of regional Victoria need special attention in regional planning. Areas that contain and sustain high value agricultural production should be protected from encroaching and conflicting land uses, while other primary production areas should also be subject to appropriate planning controls. Renewable energy zones should be explicitly accommodated in a way that enables co-existence wherever possible with other valued rural economic activities. Climate change impacts should also be recognised.</p>	<ul style="list-style-type: none"> Establish clearer and better mapping of areas for agricultural protection taking account of a changing climate, land capability and strategic attributes. Provide a planning framework and policy tools to support the sustainability of agriculture and rural land uses.

5 Pillars of regional and rural planning

Housing choice, affordability, and sustainable neighbourhoods

The Covid pandemic elevated the stresses in regional housing markets. Development pressures accelerated in peri-urban areas and regional cities like Geelong and Ballarat, with environmental management, sequencing and infrastructure coordination issues akin to Melbourne's growth areas arising. Elsewhere in some smaller cities and towns spikes in development activity put pressure on land use planning systems, infrastructure and local council resources. The affordability crisis spread to the regions.

State-wide regionally relevant policy guidance for residential development is required. This will assist planning for development in heritage contexts, addressing contamination, considering and managing bushfire risks, providing buffers to agricultural activity, and undertaking housing and built form analysis. Measures to encourage and accommodate key worker, social and affordable housing need to be accommodated. Infill housing where realistic should be a focus. Planning for housing growth needs to balance a range of objectives: delivering greater housing choice, improving affordability outcomes, and creating sustainable neighbourhoods. More sophisticated and design conscious approaches are required that demonstrate how additional development can address changing needs and household means, while leveraging higher amenity outcomes.

Infrastructure for growing and resilient communities

Accommodating growth and creating new housing requires investment in both physical development and local community infrastructure, delivered at the right time, to support resilient communities.

At a Victoria-wide level regional rail connections and major freeways reinforce the desired overall settlement structure. For major regional cities faster connections to the Melbourne skills, labour and economic activities pool are a priority. Within regions local public transport, arterial roads and traffic works are required to unlock housing potential in new development areas. Effective transport planning, and the incentives and penalties 'in the system' also drive sustainable changes in travel behaviour and support the transition to less polluting modes such as public transport and electric vehicles. Other state infrastructure such as schools and health facilities should accompany development in a timely fashion.

Community infrastructure is the collective spaces and programs through which people socialise, learn, recreate, create, and celebrate culture. Councils in regional areas need the tools to plan for and fund new or upgraded infrastructure in a timely fashion, and to maintain infrastructure and services in small townships and dispersed settlements or where communities are experiencing social and economic disadvantage.

New directions

- Nominate **aspirational housing capacity targets by municipality** to guide local planning, to demonstrate achievement of the settlement vision.
 - **Identify major residential growth precincts** and provide clear principles for growth planning.
 - Prepare **regionally relevant policy guidance** for sustainable neighbourhood planning and development.
-
- Align the **State Infrastructure Strategy with the regional land use** strategies.
 - Commit to development of **infrastructure benchmarks and guidelines** as a baseline for local planning.
 - **Establish state guidance** for open space contributions.

Priority areas for reform to enhance plan delivery and system efficiency	New Directions
Governance – how can responsibilities for implementing planning aims and strategies be allocated and strengthened?	<ul style="list-style-type: none"> Reinforce the critical role for local government in plan implementation and system stewardship Establish stronger regional planning, coordination and implementation arrangements Re-boot Development Victoria for orderly and innovative development in greenfield and infill areas, with a mandate to generate net community benefits (social, environmental and economic outcomes) over commercial returns Establish Traditional Owners as equal partners in developing and implementation Commit to measurement of plan effectiveness
Regulation – how can the system to regulate land use and development be improved in line with metropolitan and place planning aims?	<ul style="list-style-type: none"> Undertake a regulatory audit of the VPP provisions for plan delivery and planning system efficiency Recognise councils as co-stewards of the planning system, including through structured stakeholder engagement and feedback in system reforms Provide more structure and rigour to the way variations to discretionary provisions are considered and assessed
Infrastructure Funding – are the means to raise funds for infrastructure to support planning aims ‘fit for purpose’?	<ul style="list-style-type: none"> Establish a ‘pre-scheduled’ value capture contribution (‘development licence fee’) to replace the Windfall Gains Tax and GAIC with council land exempt and a share of revenue distributed back to councils Better align water authority and other state infrastructure funding and planning with regional land use planning Establish a system of standard rates for local development contributions in parallel with DCPs Establish a financing mechanism to forward fund local development infrastructure Establish a mandated Social and Affordable Housing Contribution
Resources – what needs to change to ensure effective implementation and administration of the system?	<ul style="list-style-type: none"> Remove rate capping for enhanced fiscal independence of local government Provide targeted funding for planning scheme amendment work undertaken by local government Work with local government to prepare a workforce plan for strategic and statutory planners
Implementation framework for the Plan for Melbourne	New Directions
For whole of government and inter-government clarity	<ul style="list-style-type: none"> Prepare a separate operational plan to guide whole-of-government implementation of strategic plans

1. Introduction

The housing crisis is focusing the attention of policy-makers. National Cabinet has agreed to a national target to build 1.2 million new well-located homes over five years, from 1 July 2024. The National Housing Accord provides incentives for the states and territories to undertake planning, zoning, land release and other measures to improve housing supply and affordability.

In this context the Victorian Government released *Victoria's Housing Statement: The decade ahead 2024-2034*¹ in September 2023 with a range of proposed reforms and initiatives focussed on planning system reforms (including 'streamlining' pathways for housing related development assessments including a greater Ministerial role), public housing renewal and development, and changes to renters rights (see box overleaf). For the longer term the statement also proposes:

- a future new strategic plan for the whole of Victoria which will target a split of residential development with 70 per cent in established areas and 30 per cent in growth areas
- a review and re-write of Planning and Environment Act 1987 promising to 'establish and clarify timeframes for decisions, as well as looking at the roles and responsibilities of everyone involved in our planning system...'

The MAV is the legislated peak body for local government in Victoria. It has a duty to advocate for the interests of its member councils. The MAV wants to position itself to positively influence the unfolding planning reform agenda in Victoria. As a step towards the preparation of a position paper the MAV has commissioned SGS Economics and Planning to prepare a Discussion Paper addressing **what a Plan for Victoria would include and how this vision could be delivered, with local government acting as a valued and indispensable partner.**

The Discussion Paper **is not** an adopted position statement of the MAV. The views expressed here are SGS's, though have the benefit of engagement with and comments from senior council staff and elected representatives in two briefings/workshops.

¹ <https://www.vic.gov.au/housing-statement>

State Government Housing Statement

In September 2023 the Government released the *Victorian Housing Statement: The Decade Ahead 2024-2034*. It has a focus on facilitating and accelerating housing supply, and explicitly claims this will enhance housing affordability (the Premier's foreword notes "It's a simple proposition: build more homes, and they'll be more affordable"). A summary of the key planning system reform elements are listed below.

Selected centralisation of decision-making including:

- Possible ministerial call-in for 'backlog' housing applications (after a 'dedicated team' works with councils, proponents and referral agencies).
- Expanded Development Facilitation Program to cover projects worth \$50m or more with 10 per cent affordable housing (\$15 million in regional Victoria), including Build to Rent projects; these will be exempt from objector notice and appeal rights, and assessed by the Minister.
- Development of 'clear' planning controls in 10 Activity Centres.

'Streamlined' development pathways including:

- No permit required for Garden units (granny flats) of less than 60sqm (plus extensions to car ports and sheds).
- More 'Deemed to Comply' residential standards ('meaning councils will only assess aspects of a permit that don't comply with those standards'), already partially enacted through converting some ResCode standards to deemed-to-comply provisions.
- Fast approvals for an expanded Future Homes program (these are standard apartment designs for amalgamated lots).
- Removing the requirement for a permit for single dwellings on lots between 300 and 500 square metres.
- Single dwellings on lots smaller than 300 square metres, where an overlay doesn't exist, will be VicSmart proposals.

Other initiatives address:

- Social housing projects / commitments
 - Replacing the 44 high-rise public housing estates by 2051.
 - Construction of "up to 769" social housing homes over five years with funding from the Commonwealth Government's Social Housing accelerator.
 - A new \$1 billion Regional Housing fund with a stated target of delivering 1300 new social and affordable houses in the regions.
 - Ongoing implementation of the Big Housing Build program.
- \$500 million released from the Victorian Homebuyer fund to support home buyers.
- A levy on short stay accommodation (such as Airbnb), with funds directed to Homes Victoria.
- Actions to protect renters rights, including restricting rent increases between fixed term rental agreements, introduction of a portable rental bond scheme and extension of notice to vacate period.

The statement also flags a future review of the Planning and Environment Act 1987 and an update of Plan Melbourne 2017-2050, with a new whole-of-state focus.

A Plan for Victoria, or Plans for Melbourne and the Regions?

The Government has proposed the preparation of a Plan for Victoria as a whole.

A statewide plan, or at least a state-wide planning framework, should be supported. It provides the opportunity to establish a compelling long-term vision for development across the state, which fully addresses the relationship between Melbourne as the dominant urban centre, peri-urban areas so dependent on their relationship to Melbourne, and regional centres and hinterland rural areas. **It provides the opportunity to establish an aspirational target for the split of future population between metropolitan Melbourne and regional Victoria.**

However, **a single Plan for Victoria is not sufficient.** It can't adequately recognise or distinguish the distinct metropolitan, regional and rural communities of interest, and their unique spatial characteristics and needs. The complexity of metropolitan Melbourne as an integrated labour market, requiring inter-connected thinking about housing, employment centres and clusters, transport, the environmental context and the host landscape, deserves its own comprehensive plan. While not as complex, regional and rural areas also deserve distinct plans that recognise communities of interest.

A Plan for Victoria should, as a minimum, include:

- A broad settlement vision including the aspirational split of future population between metropolitan Melbourne and regional Victoria
- Consequent housing aspirations for the metropolitan area and different regions
- Nomination of a regional centres and place hierarchy, including the economic role of key centres, supported by major transport connections and investments included in a State Investment Strategy
- Key state-wide principles by planning themes (e.g. housing, jobs, transport, rural areas, environment)
- A commitment to nested, separate regional plans and what we are calling here a Plan for Melbourne, with all the detail and directions contained in this discussion paper, considered for inclusion.

This Discussion Paper is focussed on regional and rural Victoria, though is complemented by a similar metropolitan Melbourne Paper. This emphasises the above point: that distinct approaches are required. This Discussion Paper contains:

- A summary of some key **regional and rural growth and development challenges in Victoria**
- A **'five pillar' agenda for regional and rural planning**
- An **implementation framework agenda covering governance, regulation, infrastructure funding and resources.** Some suggested directions included here are in part a response to Housing Statement reforms which have to a certain extent 'sidelined' local councils in the planning and development process. The directions recognise that as the closest level of government to communities, and as content experts, councils will be crucial to a successful metropolitan and regional planning and the ongoing success of planning system reforms.
- A concluding statement on effectively **operationalising metropolitan and regional plans.**

2. Regional and rural planning challenges

2.1 Planning for Regional and Rural Victoria in context

Regional Growth Plans

The State Government's current regional strategic planning directions are contained in Regional Growth Plans dating from 2014. The Plans aimed to establish a framework to accommodate growth across regional Victoria over a 30-year period, with broad areas identified for future residential growth, areas to be preserved, and regional priorities for infrastructure planning.

While each of the Plans is tailored to the characteristics and challenges in each region, they have a common structure with an identified vision, principles to achieve the vision, and a regional land use framework. This framework considers four key elements:

- Regional economy (including key businesses and industries, resources)
- Environment and heritage (including environmental and cultural assets, natural hazards and risks)
- Living in the region (including settlement networks and housing)
- Regional infrastructure (including transport, social infrastructure and utilities).

The framework also sets out a series of directions, policies, strategies and actions for the major centres in each region, which relate to planning for and managing future growth.

The Plans each conclude with a set of future directions for regional growth and their spatial application, and an implementation plan for the actions.

New Housing Statement

In the September 2023 Housing Statement, the Victorian Government announced it would prepare a new plan, covering the whole State. It proposes to include 'local government targets for where those homes will be built',² and implies that the government's 70:30 infill target will also apply in regional areas.

A state-wide perspective on growth, including understanding the future of the regions in relation to metropolitan Melbourne, as well as the unique challenges of peri-urban areas and regional cities, should set a valuable context for metropolitan planning. It will not however, replace the need for region-specific plans to direct growth, recognising unique regional environmental and settlement contexts, and varied growth and development challenges.

² Housing Statement, Victorian Government 2023

2.2 Forecast growth

The Housing Statement expresses the growth challenge as follows.

Victoria is the fastest growing state in the country: our population is expected to reach 10.3 million by 2051. Melbourne is set to become Australia's biggest city by the end of the decade, with the population estimated to grow by an additional 2.9 million people over the next 28 years.

If we're going to make sure the current problem doesn't get worse, we need to build 1.6 million homes by 2051 – that's around 57,000 homes a year. To ease the acute pressure people are currently facing, we need to deliver 2.24 million homes by 2051 – that's around 80,000 a year. On current trends, we are expected to build around 540,000 homes over the next decade. The work we're doing in this Housing Statement will facilitate an extra 250,000 homes being built in Victoria over the next ten years – and it'll support 16,000 jobs.

The official forecasts (Victoria in Future 2023) suggest regional Victoria's population will increase by 646,000 people to 2.28 million from 2021 to 2051³, with an estimated additional 364,000 dwellings over the same period⁴. According to these forecasts between 2021 and 2051 regional Victoria will deliver about 12,000 net additional dwellings annually, the equivalent of 233 dwellings per week⁵.

In 2021 Victoria's population split was 72.5 per cent in metropolitan Melbourne and 27.5 per cent in regional areas.⁶ Looking forward Victoria in Future assumes regional Victoria will only accommodate 17 per cent of the additional population growth to 2051⁷, implying an ever reducing share of development and economic activity in the regions.

A whole of Victoria Plan provides the opportunity to interrogate these projections, including identifying whether an alternative metropolitan versus regional Victoria population split might be more sustainable or desirable. This is a role for planning, to pursue a different future to 'business as usual' through appropriate policy and investment decisions.

The potential to accommodate a greater share of the future population in regional areas should not be discounted. With supportive major infrastructure investment, including prioritising fast connections to central Melbourne, and investment in regional economic development, major regional centres, peri-urban areas and amenity rich smaller towns could accommodate additional population and jobs growth.

2.3 Selected challenges facing regional and rural Victoria

The Regional Growth Plans from 2014 are out of date, given the context for planning is changing rapidly. New regional plans will need to consider what the past frameworks did well and how they could

³ Victoria in Future (VIF) 2023

⁴ *ibid*

⁵ *ibid*

⁶ *ibid*

⁷ *ibid*

do better and provide the guidance and direction to address new and evolving growth challenges. A selection of these challenges – by no means comprehensive – is discussed below.

Properly elevating planning for Country

First Nations perspectives and involvement in planning and development related issues is – rightly – coming into increased prominence. First Nations peoples across Australia have been managing the natural environment for thousands of years, with many examples of Indigenous land management practices having substantial benefits in protecting biodiversity and reducing the risks of hazards like bushfires.⁸

In Victoria, the State Government has reached agreement with the First People's Assembly of Victoria on a Treaty Negotiation Framework, centred around self-determination, empowerment, and recognising First People's right and responsibilities.⁹ The Framework will apply for both Traditional Owner Treaties and a Statewide Treaty, which, along with broader efforts to enhance indigenous involvement and agency in planning and land management, will in turn have potential implications for how land use planning is done in regional and rural areas.

Integrating First Nations perspectives and knowledge in the planning system has a long way to go, and will require a new way of thinking and operating to what has become the accepted practice of development in Australia since colonisation.¹⁰ This will be a challenge, as there are fundamental differences between the collaborative and deliberative nature of decision making among indigenous communities, and the bureaucratic, legislation-based practice of strategic and statutory planning.

Need for additional information and action on climate resilience

The impacts of climate change are already being felt locally. Impacts include the increased occurrence and severity of extreme weather events, and the likelihood of different climate or weather extremes simultaneously or in succession – having an even greater impact than those extremes occurring in isolation.

Regional Victoria is already seeing and feeling the impacts of climate change. The Black Summer bushfires of 2019-20 were catastrophic for many regional communities. Burning 1.5 million hectares of land across the State, the bushfires cause five deaths directly, additional deaths and health problems resulting from bushfire smoke inhalation, the destruction of hundreds of homes, substantial economic costs, loss of critical ecological habitats, and the deaths of a huge number of native and livestock

⁸ Macdonald, et al., 2022, 'Recognising Indigenous knowledges is not just culturally sound, it's good science,' <https://www.preventionweb.net/news/recognising-indigenous-knowledges-not-just-culturally-sound-its-good-science>

⁹ First Peoples' Assembly of Victoria, 2023, <https://www.firstpeoplesvic.org/reports-resources/treaty-negotiation-framework-fact-sheet/>

¹⁰ Porter, 2017, 'Indigenous people and the miserable failure of Australian planning,' *Planning Practice and Research*, Vol. 32 (5), pp.556-570, <https://researchrepository.rmit.edu.au/esploro/outputs/journalArticle/Indigenous-people-and-the-miserable-failure-of-Australian-planning/9921860536101341>

animals.¹¹ The 2022 Victorian floods were also destructive and widespread in regional areas, with 64 of Victoria's local governments impacted. The floods caused many regional towns such as Echuca to be cut off for extended periods of time, with substantial damage to farms and crops, wildlife and habitats, and public infrastructure as well as homes.

The CSIRO has projected that by mid-century, Victoria will see:

- The number of very hot days of over 40 degrees Celsius increase, and increasing more so in some regional areas like Mildura
- Longer fire seasons and 40 per cent more high fire danger days
- Sea level rise of around 24 centimetres
- More intense extreme rain events
- Less certain rainfall patterns
- Declines in snowfall in the alpine region.¹²

FIGURE 1: IMPACTS OF CLIMATE CHANGE IN VICTORIA



Source: Victorian Government, 2022.¹³

¹¹ Australian Disaster Resilience, 2023, 'Bushfires- Black Summer,' <https://knowledge.aidr.org.au/resources/black-summer-bushfires-vic-2019-20/>; Department of Energy, Environment and Climate Action, 2023, <https://www.wildlife.vic.gov.au/home/biodiversity-bushfire-response-and-recovery>

¹² CSIRO, 2021, 'Victoria's Changing Climate,' Climate Change in Australia, <https://www.climatechangeinaustralia.gov.au/en/changing-climate/state-climate-statements/victoria/>

¹³ Victorian Government, 2022, 'Climate-related Risk Disclosure Statement 2022,' <https://www.dtf.vic.gov.au/funds-programs-and-policies/victorian-government-climate-related-risk-disclosure-statement>

As is already being observed, these threats have a widespread range of impacts, not only on the native environment and biodiversity, but to the health and liveability of the people living in regional Victoria. The economic cost to Victoria of heatwaves alone has been estimated at \$87 million per year, which is expected to increase to \$179 million by 2030. The economic impacts are also larger in regional locations due to the presence of the agricultural sector.¹⁴ Sea level rise also has the potential to significantly impact on Victoria's coastal communities – affecting not only existing areas but planning for future growth. Estimates have put the potential economic impact at \$337 billion dollars in 2100 if adequate sea level rise adaptations are not put in place.¹⁵

There is an urgent need to accelerate climate-hazard resilience and adaptation planning and delivery. The risk of increased extreme weather events varies spatially due to a variety of factors and planning for mitigating these risks cannot be undertaken uniformly. This planning needs to be informed by an understanding of the compounding impacts of climate-related hazards, and the risks they pose to regional areas.

Deepening the pool of attractive jobs in regional centres

Figure 2 shows the share of jobs in regional Victoria compared to Greater Melbourne as of the 2021 Census by broad industry categories.

The continuing strength of the agriculture and mining sectors to regional Victoria is highlighted, with about 8 per cent of jobs in these sectors.

To sustain employment and economic growth in regional centres, opportunities to deepen the pool of higher value business services employment opportunities need to be developed. This will strengthen value chains, including those associated with agricultural and mining production, make the regions attractive to a wider range of workers and underpin wealth creation,

The business service sectors or, as described here, 'knowledge intensive' broad industry category includes the following sectors:

- Information Media and Telecommunications
- Financial and Insurance Services
- Rental, Hiring and Real Estate Services
- Professional, Scientific and Technical Services
- Administrative and Support Services

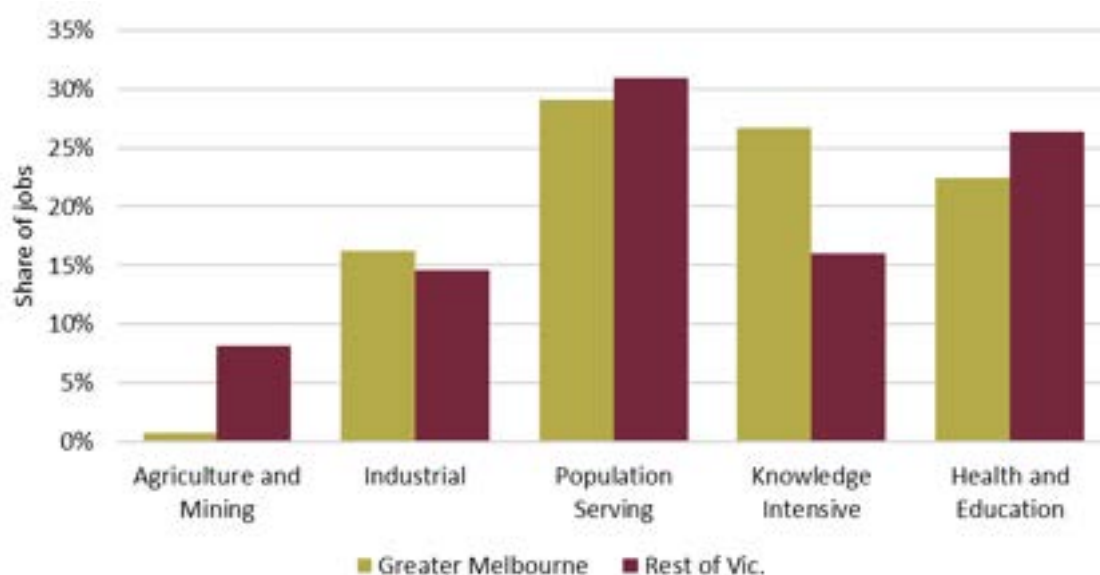
¹⁴ DELWP, 2019, 'The economic impact of heatwaves on Victoria,' https://www.climatechange.vic.gov.au/__data/assets/pdf_file/0011/413030/The-economic-impact-of-heatwaves-on-Victoria.pdf

¹⁵ Victoria Marine and Coastal Council, 2022, 'A general summary of the report Economic Impacts from Sea Level Rise and Storm Surge in Victoria, Australia, over the 21st century (Kompas, t. et al (2022)),' https://www.marineandcoastalcouncil.vic.gov.au/__data/assets/pdf_file/0036/665649/General-Summary-of-the-Kompas-Report-Economic-Impacts-from-SLR-and-SS-19072023.pdf

- Public Administration and Safety.¹⁶

The chart shows that these sectors, which are typically office based, make up a much smaller share of jobs in regional Victoria, compared to metropolitan Melbourne.

FIGURE 2: SHARE OF JOBS BY INDUSTRY CATEGORY, PLACE OF WORK, 2021 CENSUS



Source: ABS 2021 Census.

Trends over time also illustrates that ‘knowledge intensive’ jobs in the regions have grown at a slower pace than in metropolitan Melbourne, implying that Melbourne is growing its overall role in Victoria in these activities. Figure 3 shows the proportional growth in employment in each of the categories between the 2016 and 2021 Censuses.

¹⁶ Note – categorisations are based on ANZSIC classifications as follows:

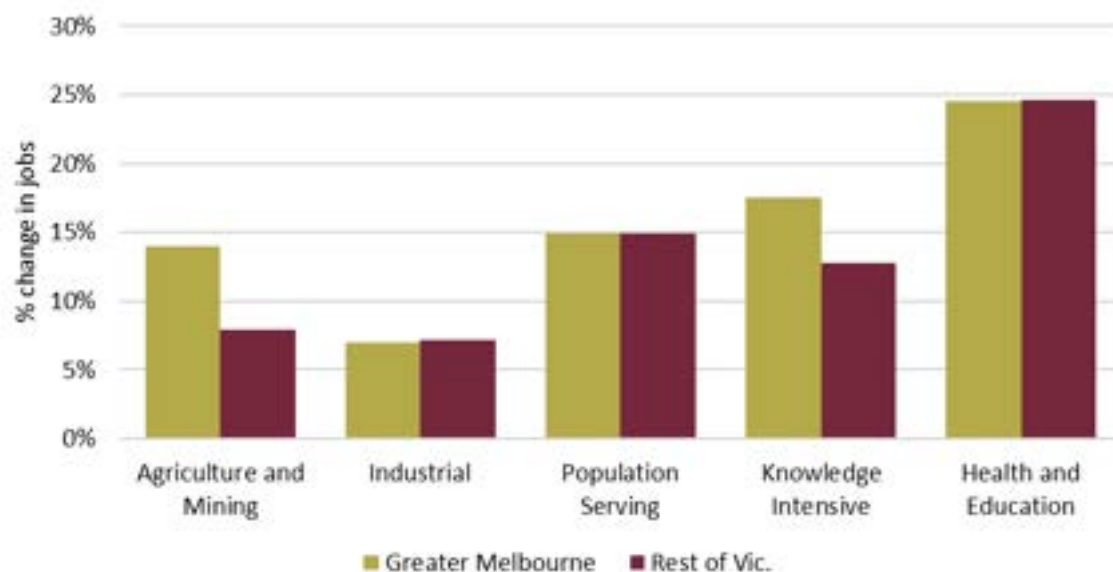
Agriculture and mining: Agriculture, Forestry and Fishing, Mining

Industrial: Manufacturing, Electricity, Gas, Water and Waste Services

Population Serving: Construction, Retail Trade, Accommodation and Food Services, Arts and Recreation Services, Other Services

Health and Education: Education and Training, Health Care and Social Assistance.

FIGURE 3: PERCENTAGE CHANGE IN JOBS BY INDUSTRY CATEGORY, PLACE OF WORK, 2016-2021 CENSUSES



Source: ABS 2021 Census.

While regional Victoria and Melbourne saw similar levels of growth in health and education and population serving jobs over this time, there is a distinct difference in the level of growth in the knowledge intensive industries. Metropolitan Melbourne saw an increase of 17.5 per cent in knowledge intensive jobs between 2016 and 2021, while for regional Victoria the increase was just under 13 per cent.

From 2016-21, health and education sectors saw the largest growth in both Greater Melbourne and regional Victoria. The Health Care and Social Assistance industry (as defined by the ABS) accounted for over 17 per cent of jobs in regional Victoria in 2021, up from around 15 per cent in 2016. While the share of jobs in the sector in Melbourne also increased over this period, the scale of the increase was slightly higher in regional Victoria. This highlights the growth and strength of regional health hubs in the major regional cities, but also likely reflects the increasing demands from an ageing population in regional areas.

These trends are reflective of broader shifts affecting the economy, including the ageing of the population and the gradual shift towards service-based sectors. However, to be able to sustain employment and economic activity in the regions, centres should seek to deepen their 'knowledge' intensity and value chain independence. Actions like those which sought to develop an insurance industry cluster in Geelong will need to be selectively repeated in other regional centres.

Competing land uses in the rural economy

Planning in rural and regional areas needs to account for the challenge of competing land uses.

The popularity of large lot rural (non-farm) living, structural shifts in regional economies and investment patterns, the energy transition, climate change impacts and other policy factors, have meant that traditional agricultural land uses can be 'in competition' with other land uses. Uses that can 'outbid'

farming for land risk diminishing the agricultural economy, including reducing food production capability. Compounded by climate change, such risks to rural sustainability are only likely to increase.¹⁷

The increased popularity of rural and peri-urban living in recent decades (further stimulated by the COVID-19 pandemic) has seen areas with fertile agricultural land converted for housing – as observed in Melbourne and its surrounds.¹⁸ One estimate suggests that rural subdivisions could halve peri-urban food production capacity by 2050, resulting in just 18 per cent of food needs being met.¹⁹ Competing uses and the fragmentation of rural land can drive up land prices, further impacting the commercial viability of agricultural uses.²⁰ Despite the issue being recognised in strategic plans and policies, stronger mechanisms to retain the productive capacity of agricultural land in rural and regional areas are likely to be needed.

Land use policies for regional and rural locations will also be impacted by the wider transition to net zero. Many regional areas will be affected economically by the replacement of coal-fired power stations with renewable energy. Six Renewable Energy Zones (REZs) have been established across regional Victoria – the Central North, Gippsland, Murray River, Ovens Murray, South Victoria, and Western Victoria. VicGrid is currently at the very early stages of developing a State-wide first Victorian Transmission Plan by mid-2025. It will identify ‘Renewable Energy Zone Priority Areas,’ for the clustering of transmission, wind/solar farms and storage.²¹ The Gippsland and Portland proposed offshore wind farms are by far the biggest proposed power generator replacement source of renewable energy for the Latrobe Valley’s coal-fired power stations.

¹⁷ Cordell, Jacobs and Wynne, 2016, ‘Urban sprawl is threatening Sydney’s foodbowl,’ *The Conversation*, 25 February 2016, <https://theconversation.com/urban-sprawl-is-threatening-sydneys-foodbowl-55156#:~:text=Total%20food%20production%20could%20drop,demand%20to%20a%20mere%206%25>.

¹⁸ El Wazan and Edirisinghe, 2022, ‘Measuring agricultural loss and the impact of differing dwelling types: A case study Melbourne,’ IOP Conference Series: Earth and Environmental Science, <https://iopscience.iop.org/article/10.1088/1755-1315/1101/5/052013/pdf>

¹⁹ RMIT, 2020, ‘Urban fringe critical to future food supply,’ <https://iopscience.iop.org/article/10.1088/1755-1315/1101/5/052013/pdf>

²⁰ RMCG, 2015, ‘Rural Policy Review Final Report,’ prepared for NSW Department of Planning and Environment, December 2015.

²¹ Victorian Government, 2023, ‘Developing the first Victorian Transmission Plan,’ <https://engage.vic.gov.au/victransmissionplan>

FIGURE 4: VICTORIAN RENEWABLE ENERGY ZONES (REZ)



Source: Department of Energy, Environment and Climate Action, 2023.²²

The intention is that these locations will allow for renewables projects to be developed efficiently and contribute to increased energy affordability, with reduced risks for investors and enhanced economic development in the regions, while also addressing climate change.²³

The designation of the REZs needs to be accounted for in future land use planning in regional Victoria. The potential concentration of renewables projects in these precincts will have both long and short term impacts. In the short term, tensions between renewable energy projects and existing communities are apparent. These need careful management and recognition in regional planning.

The picture for investment attraction in regional areas will potentially change, with renewable energy projects having the potential to catalyse other development and investment into particular areas, therefore requiring new or different land uses with different planning responses. The need for new workers in renewable energy will also potentially shift the economic diversity of the regional communities nearby, with flow on effects for housing and infrastructure provision. Accommodating this critical energy transformation, while maintaining strong agricultural economies, is yet another challenge.

²² Department of Energy, Environment and Climate Action, 2023, 'Renewable energy zones,' <https://www.energy.vic.gov.au/renewable-energy/renewable-energy-zones>

²³ DELWP, 2021, 'Victorian Renewable Energy Zone Development Plan Directions Paper,' February 2021, https://www.energy.vic.gov.au/__data/assets/pdf_file/0028/580618/Victorian-Renewable-energy-zones-development-plan-directions-paper.pdf

The development of REZ priority areas needs to significantly lift the standard of community consultation, given the strong resistance observed from farming communities to proposals to date. Investment will also be needed to fully fund proactive regional impact and readiness studies for priority REZ areas, to ensure that rural communities in Victoria are prepared for the impacts.²⁴

Fragmentation and coordination challenges in regional greenfield development areas

Many greenfield development areas in regional Victoria are hampered by a lack of scale and consistent development momentum. The issues that arise include:

- Difficulties in sequencing land for release in a coordinated fashion, because some areas otherwise zoned and ready for development are being withheld (e.g. owners are not ready to sell or are content using the land for another use), or ownership is fragmented (including sometimes in restrictive rural and low density residential zones) and coordination of owners is difficult
- An inability to ‘forward fund’ development infrastructure which is critical to support efficient and development (e.g. smaller scale developers or landowners are unwilling to finance significant drainage or roadworks required to open a development front; or councils are unwilling to borrow or commit to Development Contribution Plans that imply financial obligations when receipts linked to future development may be uncertain or ‘bumpy’).

The barrier of upfront infrastructure financing (and implications for development feasibility) is quite typical in small scale development areas across Victoria but can also be manifest in regional cities with significant new development fronts such as Geelong and Ballarat.

It means that ‘first mover’ developers can be deterred from undertaking housing development which is otherwise required to meet housing needs. In some contexts councils themselves are undertaking small developments to fill the market gaps, recognising that there is unfulfilled demand for housing.

Lack of infill and diverse housing

The Government’s target for 70 per cent of new housing in regional Victoria to be in ‘infill’ or the established parts of towns and cities is a very ambitious one.

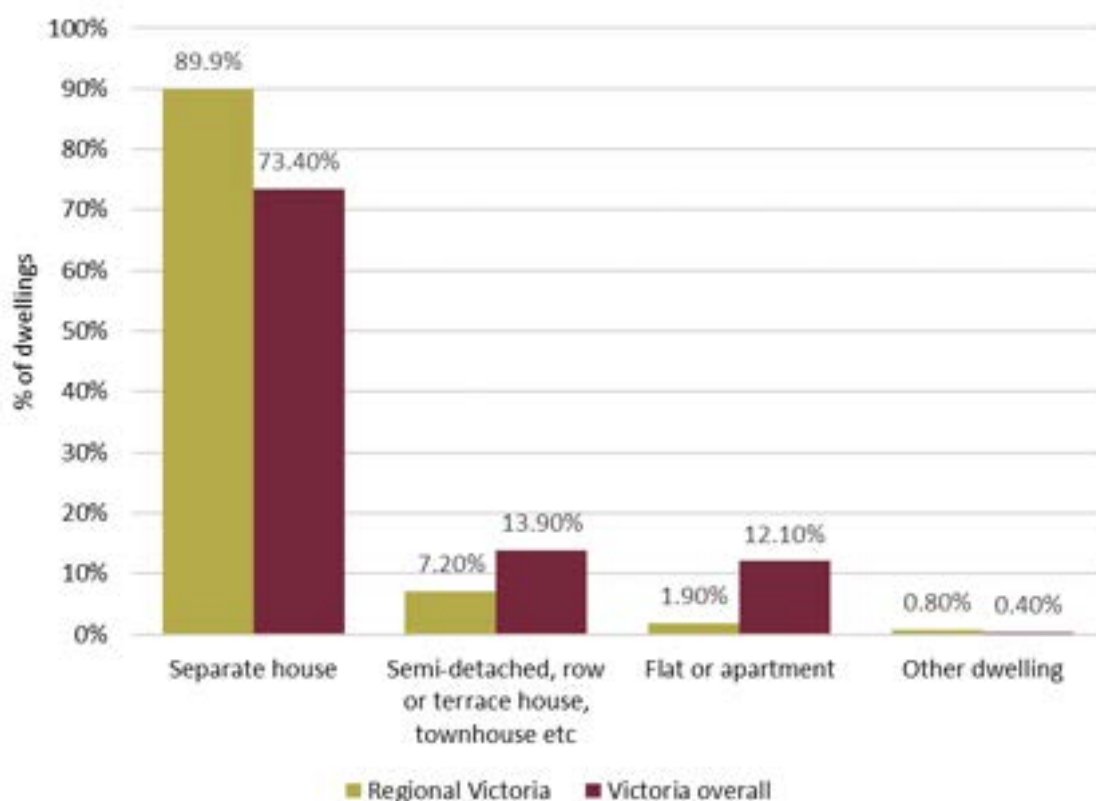
By definition, infill housing is mostly apartments or sometimes ‘low to medium’ density forms (like semi-detached or townhouses). Overwhelmingly however, new housing in regional and rural Victoria, even in mature regional cities such as Ballarat, Bendigo and Geelong is detached housing, mostly on the fringes of township or urban areas.

Figure 5 shows that only 0.2 per cent of dwellings in regional Victoria are classified as apartments and only 7.2 per cent are in low to medium density forms, compared to 12.1 per cent and 13.8 per cent respectively for Victoria as a whole (both categories dominated by metropolitan Melbourne). Significantly shifting preferences towards non-detached housing in regional Victoria, or more relevantly,

²⁴ See for example, Wellington Shire Council, 2023, ‘Wellington Renewable Energy Impact & Readiness Study,’ Final Report, January 2023, <https://wazfiles.blob.core.windows.net/pubwebcontent/Publications/Wellington%20Renewable%20Energy%20Impact%20&%20Readiness%20Study.pdf>

shifting market realities to be more favourable to non-detached housing represents a significant challenge.

FIGURE 5: TYPE OF DWELLING, REGIONAL VICTORIA AND VICTORIA, 2021 CENSUS



Source: ABS, Quickstats, <https://www.abs.gov.au/census/find-census-data/quickstats/2021/2RVIC>

Fundamentally, infill development which implies low to medium density dwellings, is riskier in regional Victoria. The per unit price of detached housing is comparable to what it would cost to construct flats or townhouses so the available margins to developers are typically modest. Developers favour the form they know will reliably sell, which is detached dwellings. This is self-reinforcing because it also means there is generally a shallow local industry capacity for more diverse non-traditional housing types.

In the central parts of the major regional cities, such as Ballarat, Bendigo and particularly Geelong which are amenity and service rich, there are some tentative signs of increased infill housing development. But this type of housing is new to communities and can meet resistance, or in some cases councils themselves may be under-prepared to assess development proposals having regard to context issues and their general lack of relevant experience.

The demographics of regional Victoria are shifting with generally older and smaller households. A shortage of housing for hospitality workers and seasonal workers is often reported. There is an apparent latent demand for alternative, more compact housing suitable for downsizers and entry-level households but the market conditions, and potentially planning systems, are not currently conducive to widespread infill development in regional towns.

Absence of catalyst state infrastructure

With the passing of time since the preparation of the Regional Growth Plans, and a changed development context (including the acceleration of growth in regional areas during the Covid period, and increased hazard risk from bushfire and floods), new development areas in regional Victoria have proliferated. This is particularly the case in 'peri-urban' municipalities adjacent to metropolitan Melbourne, and in the major regional cities.

The growth has often been faster than anticipated by the Regional Growth Plans and official population forecasts. As new growth areas have been identified so have calls and demands for key items of state infrastructure such as arterial roads, public transport upgrades and new social infrastructure such as schools. Pressure on sensitive environments has increased.

The funding and investment challenge for State Government to provide infrastructure across multiple fronts has compounded. Sometimes infrastructure provision has 'lagged' such that new development areas have not been able to develop as intended.

Issues in relation to state infrastructure include:

- Mismatch in timing to catalyse greenfield precinct development, meaning development is delayed or insufficiently serviced.
- A perception of excessive infrastructure standards which unnecessarily adds to costs, and delays provision.
- Water authority investment programming that is not aligned with planning and sequencing for new growth areas.

In addition, the development market in regional and rural areas is different to that of urban areas, which makes the financial viability of the provision of infrastructure alongside development more challenging, including generally lower profit margins and higher risks. If planned well, infrastructure can be the catalyst to unlocking the housing growth needed to support the economic aims of regional and rural areas.

The housing crisis spreads – more social, affordable and worker housing is required in regional Victoria

Until the COVID-19 pandemic the availability and affordability of housing in regional Victoria was not a particular area of policy focus or wider interest. The increased attractiveness of non-metropolitan areas during and immediately after the pandemic disrupted often shallow housing markets and a new regional dimension to the affordability crisis emerged.

A spike in internal migration to regional areas increased demand for housing, the price increase encouraged some investors with rental properties to sell, while others swapped rental dwellings into short term accommodation. Some city-based owners of properties either moved renters on and moved in or chose to occupy their holiday homes for the pandemic duration, avoiding the worst of the city lockdowns. In what were often relatively small housing markets in most areas particularly affected, and used to gradual change, these were seismic impacts. House prices and rents skyrocketed and rental vacancy rates shrank.

At the same time, as regional destinations became increasingly attractive, hospitality, essential or seasonal workers couldn't find housing (thereby stunting local economies), long-time residents were 'priced out' and unable to transition in their communities, and housing stress increased significantly. In

June 2023, 54,300 of the applicants waiting for social housing on the Government's Waiting List register, were seeking housing in regional Victoria. This is over 30 per cent of the Victoria-wide total (when the population in regional Victoria is about 27.5 per cent of the Victorian total).²⁵

While the Victorian Government's Big Housing Build is adding social housing capacity in parts of regional Victoria, it is not enough to overcome years of under investment. A lack of housing has been noted by Councils as one of the primary limitations for businesses in regional areas. Worker housing is therefore also required in many areas and towns to support regional economies.

Infrastructure and support for a patchwork of development contexts

Increased population growth brings with it a need to plan for future infrastructure. However, notwithstanding the pandemic era growth, some areas are static or declining and this brings with it a need for different thinking about infrastructure or services management, including new ways of delivering services (see recent population change in Figure 6, which particularly highlights the strong growth in peri-urban areas and major regional cities). Regional disparities in economic performance and disadvantage also require particular attention.

Issues in infrastructure planning therefore include:

- **Spatial disadvantage** – understanding the incidence of disadvantage and where community infrastructure and services play a critical support role.
- **Current state of assets** – where ageing or not fit for purpose infrastructure requires significant maintenance, renewal, and or redevelopment including in areas that might be suffering population declines with implications for current and future capital budgets.
- **'Landlocked' infrastructure** – in growth contexts where existing infrastructure is unable to expand either because no additional land is available (being already developed) or where it might be available but is prohibitively expensive to purchase.
- **Coordinated delivery of infrastructure** – where integrating and coordinating state and local infrastructure provision to maximise the use of buildings and manage costs will be critical as the population increases, but requiring both local and state government to be open to alternative delivery pathways, integration of models, flexibility, and in some cases, increased risk.

²⁵ Housing Vic, Data on VHR location preferences by preferred waiting list area, <https://www.homes.vic.gov.au/applications-victorian-housing-register-vhr>

3. The five pillars of regional and rural planning

3.1 Overview

Strategic planning for future growth is essential for regional Victoria, to not only identify how land will be used and developed, but to achieve broader economic, social and environmental objectives. The best strategic planning is based on rigorous analysis, an understanding of the costs and benefits of different settlement futures, and clear spatial and policy directions supported by community exposure and engagement. Regional-scale strategic planning should be based on a compelling overall long term vision for the future structure of Victoria and within its constituent regions.

Effective strategic planning in regional and rural areas informs trade-offs between different objectives; identifies the broad extent of the urban or settlement areas; identifies the relative economic and service roles of regional cities, towns and smaller settlement areas; provides clarity on the future and use of agricultural and rural areas which underpin the export wealth of regional economies; identifies where other major industrial and employment lands are to be located, supported by transport connections; identifies where new housing is to be provided consistent with the desired future settlement structure, while also ensuring that support infrastructure and services are efficiently provided; and how governance and delivery systems will support place-based outcomes. Strategic regional planning is crucial to creating a 'line of sight' for assessing the merit of development proposals and in translating objectives into local planning controls.

Five pillars of regional and rural planning

The key pillars to support the achievement of the settlement and land use vision and inform future planning for regional and rural Victoria are summarised as follows.

1.	Respecting and integrating Country and landscape
2.	Strong centres and employment clusters
3.	Enhancing rural and agricultural economic activities
4.	Housing choice, affordability, and sustainable neighbourhoods
5.	Infrastructure for growing and resilient communities

The four key elements in each of the Regional Growth Plans already address aspects of these five pillars. The focus in the suggested directions under each of the pillars that follow is on addressing new challenges with new ideas and initiatives, to provide a better, more contemporary and relevant regional and rural strategic planning framework.

3.2 Respecting and integrating Country and landscape

Development in regional areas and rural economic activity should respect and minimise impacts on biodiversity, precious landscapes, waterways and natural resource catchments. Vastly improved approaches to environmental sustainability are required - particularly in the face of climate change which existentially threatens ecosystems and living environments. Sensitively planning *with* and *for* Country – respecting the Aboriginal approach to stewardship and care of soils, plants and water over thousands of years – will be at the heart of new approaches.

New directions for regional and rural planning

Commit to Planning with Country.

Commit to understanding First Nations cultural and land management practices, and how these can be at the heart of contemporary rural landscape management and land use planning, through partnerships and the development of shared knowledge with the Traditional Owners.

Planning with Country

Aboriginal peoples have looked after the Australian landscape for thousands of years. Future rural and urban land use planning in regional and rural Victoria needs to plan both with and for Country, as understood by Traditional Owners and Custodians.

The NSW Government's Planning with Country Framework is an example of a step towards ensuring that the built environment is developed with a Country-centred approach guided by Aboriginal people, including through reducing the impacts of natural events, valuing and respecting Aboriginal cultural knowledge, and that sensitive sites are protected by Aboriginal people having access to their homelands and cultural practices.²⁷

Planning at its heart should seek to deliver positive outcomes for Country and the community. However, the planning system does not allow for the inclusion of Indigenous people within the system as an equal and valued partner, with the traditional knowledge to inform how we care for and plan for Country. We need to embed a practice of working with First Nations people, to value and respect their cultural knowledge and to engage with them in developing regional planning strategies.

²⁷ NSW Government, 2023, 'Connecting with Country,' <https://www.planning.nsw.gov.au/government-architect-nsw/policies-and-frameworks/connecting-with-country#:~:text=The%20NSW%20Government%20is%20committed,built%20environment%20projects%20in%20NSW>.

Commit to bushfire and flood mapping to identify areas unsuited to development or intensification.

The State Government needs to lead the mapping for both bushfire and flood risk based on the best available data and science, to update Planning Schemes. This is crucial to informing the extent of future regional townships and settlements, and building and planning controls. The mapping would consider all relevant aspects relevant to bushfire and flood risk, including through consultation with local government and water authorities. The mapping should be kept up to date, in real time. While comprehensive mapping will take time (to be ultimately included in an up-to-date central data base) the new regional strategies should include sufficient bushfire and flood mapping to identify areas of hazard, and to inform residential and other land use planning (via corresponding timely updates to planning schemes).

Council by council or precinct by precinct analysis is highly inefficient and adds costs and risks to the development process. The 2009 Victorian Bushfires Royal Commission's recommendation 37 called for the State identify a central point of responsibility for and expertise in mapping bushfire risk²⁸. The October 2022 Echuca floods are the most recent reminder of the stress, damage and trauma that climate events can bring, and how important it is to prohibit future settlement in areas that will be increasingly flood prone. A definitive but ongoing State led effort is required to provide the information on potential hazards on which such directions can be made.

Commit to universal minimum floor level standards for sea level rise to be applied to all coastal LGAs.

As sea level rise does not distinguish between local government boundaries, adoption of a universal minimum floor level standard for the State will be important to effectively plan and future-proof communities in the face of climate change.

Confirm growth boundaries and areas to be protected from future development.

The hazard mapping, biodiversity, and cultural heritage considerations (along with the mapping of agricultural land discussed under Pillar 3) should provide the basis for the establishment of growth boundaries for the main cities and towns in regional Victoria. While this should account for realistic urban expansion prospects it is consistent with the ambition for a greater share of (infill) development in established areas as well as greater respect for landscape and urban-rural interfaces.

Establish and maintain networks of 'green' and 'blue' infrastructure within new and established areas, through tree canopy requirements and reforms to open space contributions.

Meaningful ways of enhancing 'green' infrastructure in both private and public areas for climate resilience and amenity need to be developed. This should include (in private areas) giving statutory effect to tree canopy requirements, for example mandating a minimum of say 30 per cent tree canopy

²⁸ <http://royalcommission.vic.gov.au/Commission-Reports/Final-Report/Volume-2/Chapters/Planning-and-Building.html>

coverage during precinct development (which could be supported by provision of access to funding for implementation partners to plant, replace and maintain tree canopy trees).²⁹

Green and blue infrastructure is critical for climate resilience

Urban green and blue infrastructure is all of the vegetation and water that provides environmental, economic and social benefits such as clean air and water, climate regulation, food provision, erosion control and places for recreation. It includes trees and vegetation, along with built infrastructure such as green roofs and walls, and water elements such as rivers, lakes, swales, wetlands and water treatment facilities. Access to blue and green infrastructure offers physical and mental health and wellbeing benefits along with critical ecological services. A thriving connected network of natural spaces and corridors across the new and existing urban areas is critical to support biodiversity and to access benefits of urban cooling and greening. Similarly, waterways and waterbodies play a critical ecological role and well-planned water sensitive urban design can help mitigate the impacts of flooding events.

3.3 Strong centres and employment clusters

The role and function of regional cities and towns vary significantly. Regional cities have grown strongly as service hubs. Small towns in remote areas still play a vital local service role. Other towns may be relatively static or even declining. This network of cities and towns provides the 'structure' for regional economies and needs to be understood and supported through regional planning. Services employment is best clustered and located in centres to maximise accessibility to residents and workers, and where they can benefit from 'agglomeration' (that is from business competition and collaboration). Industrial and employment land areas need to be provided for the trades, urban services, storage, manufacturing, and freight functions which are still crucial in supporting regional and rural economic activities.

New directions for regional and rural planning

Identify a regional cities and towns hierarchy to support their different roles and functions.

The Plan for Victoria and regional strategies provide the opportunity to think deeply about the different roles and functions of regional cities and towns. A regional centres and settlement hierarchy should be developed to guide services and public investment to maximise access and economic development while using community resources in the most efficient and effective way.

²⁹ <https://www.infrastructurevictoria.com.au/2021/05/05/getting-to-the-root-of-victorias-tree-canopy-struggle/>

A multi-pronged program of support for priority regional centres might include deepening planning partnerships with councils and providing financial support to meet development objectives, providing transport access and other public investments, and relocating or directing government jobs to priority centres.

The opportunities for efficient smaller town growth to complement regional city expansion needs to also be accommodated through a coherent settlement hierarchy. In a way this is analogous to the city 'infill' challenge in that existing infrastructure and services may be available in these small towns which can support lower cost development.

Prepare a Regional Industrial and Commercial Land Use Plan which includes clear monitoring and planning and infrastructure investment guidance for local, regionally significant and state significant industrial areas.

The Melbourne Industrial and Commercial Land Use Plan (MICLUP) identifies State Significant, Regionally Significant and local industrial and commercial land and provides planning directions and guidance for industrial and commercial precincts, including for local government. Regional clusters of industrial activity, particularly those near major regional cities or with good road access to metropolitan Melbourne, are becoming increasingly important to some regional economies. They provide opportunities for local enterprise and value adding and offer lower cost locations than in metropolitan Melbourne.

A Regional Victoria Industrial and Commercial Land Use Plan (RICLUP) should be prepared to accompany or be incorporated into the regional land use strategies. The RICLUP would identify the industry character or economic role of state and regionally significant precincts in regional Victoria and provide guidance for the planning and management of the precincts including infrastructure priorities. The RICLUP should be updated on a five yearly basis and be supported by the availability of real time industrial land development and consumption data.

Local industrial land and supporting uses should be retained unless their loss can be absolutely justified by evidence and analysis.

3.4 Enhancing rural and agricultural economic activities

The less settled, rural areas of regional Victoria need special attention in regional planning. Areas that contain and sustain high value agricultural production should be protected from encroaching and conflicting land uses, while other primary production areas should also be subject to appropriate planning controls.

Renewable energy zones should be explicitly accommodated in a way that enables co-existence wherever possible with other valued rural economic activities. Climate change impacts should also be recognised.

New directions for regional and rural planning

Establish clearer and better mapping of areas for agricultural protection taking account of a changing climate, land capability and strategic attributes.

The changing environmental and economic context for agricultural production needs to be better understood through enhanced mapping that can inform land use development and controls, as well as where residential intensification should be avoided. This would involve coordinated and criteria based strategic mapping accounting for the changing climate, land capability and strategic attributes which identifies areas to be preserved and retained for agricultural production.

Provide a planning framework and policy tools to support the sustainability of agriculture and rural land uses.

The increasing complexity of the rural economy and rural land use mix needs to be recognised in regional planning, including accounting for environmental and natural resource values as well as the Renewable Energy Zones for the critical transition to sustainable energy generation.

Some of these issues and appropriate policy responses have been identified in previous reports and reviews of rural policy, including for the MAV and for the NSW Government.³⁰

Appropriate planning tools need to be available to:

- Support regional approaches to planning for and resolving issues affecting agricultural activities.
- Support local governments to identify and protect strategically significant agricultural land for long-term food production needs.
- Promote the expansion of the agricultural supply chain in rural and regional areas, focusing on the value-add processing of raw agricultural products and materials.

³⁰ RMCG, 2015, 'Rural Policy Review Final Report,' prepared for NSW Department of Planning and Environment, December 2015; RMCG, 2008, 'Rural Planning Report,' prepared for Municipal Association of Victoria, October 2008.

- Support the ongoing innovation, adaptation and investment in agriculture to increase sustainability and diversify based on production and market needs.
- Accommodate Renewable Energy Zones by containing these to certain areas based on strategic land use analysis (that will occur through the Victorian Transmission Investment Framework and upcoming Victorian Transmission Plan).
- Restrict or prohibit subdivision for rural living or residential intensification that undermines valued and valuable agricultural and farm activities including appropriate land use zoning that clearly distinguishes rural and agricultural economic activities from principally residential uses.
- Review/update legacy provisions in planning schemes which allow for land fragmentation and land use conflicts (such as existing use provisions).
- Generally, through strategic and statutory mechanisms, ensure that land use conflict and incompatible use and development does not undermine ongoing agricultural production.

3.5 Housing choice, affordability, and sustainable neighbourhoods

The Covid pandemic elevated the stresses in regional housing markets. Development pressures accelerated in peri-urban areas and regional cities like Geelong and Ballarat, with environmental management, sequencing and infrastructure coordination issues akin to Melbourne's growth areas arising. Elsewhere in some smaller cities and towns spikes in development activity put pressure on land use planning systems, infrastructure and local council resources. The affordability crisis spread to the regions.

State-wide regionally relevant policy guidance for residential development is required. This will assist planning for development in heritage contexts, addressing contamination, considering and managing bushfire risks, providing buffers to agricultural activity, and undertaking housing and built form analysis. Measures to encourage and accommodate key worker, social and affordable housing need to be accommodated. Infill housing where realistic should be a focus. Planning for housing growth needs to balance a range of objectives: delivering greater housing choice, improving affordability outcomes, and creating sustainable neighbourhoods. More sophisticated and design conscious approaches are required that demonstrate how additional development can address changing needs and household means, while leveraging higher amenity outcomes.

New directions for regional and rural planning

Nominate aspirational housing capacity targets by municipality to guide local planning, to demonstrate achievement of the settlement vision.

Regional strategies should identify where future housing is expected through the inclusion of clear 'housing capacity targets.' These are not housing targets for which councils are responsible for delivery; they are the amount of housing that planning controls must demonstrate they can accommodate. The municipality-by-municipality housing capacity targets would be established by analysis and reference to:

- The overall settlement vision for Victoria having regard to the role of regional cities and towns including their:
 - Employment and services accessibility.
 - Infrastructure capacity.
 - Future supportable land economics/development feasibility.
- A realistic split for future housing development between new growth or greenfield areas and infill development (likely focused in regional cities and higher amenity locations).

Engagement with councils to establish the targets would be expected.

Detailed guidelines for how to convert capacity targets to appropriate development controls will be necessary to support local planning. Planning for housing capacity should also identify how and where social and affordable housing stock will be provided, including mechanisms for delivery such as affordable housing contributions (alongside expanded federal and state government funding and provision). Providing greater housing diversity that responds to changing demographics and reduced capacity for home ownership means more consideration needs to be given to compact housing forms, but still suited to children, people with disabilities and ageing households.

Identify major residential growth precincts and provide clear principles for growth planning.

The designation of growth areas in the Regional Growth Plans was not detailed enough, leading to the selection of areas with significant development challenges and/or not suited to housing growth. The identification of major growth areas requires more considered investigation of likely physical constraints, such as flooding, drainage, bushfire, native vegetation, and topography. Discovering issues and barriers to development once expectations have been raised by designations for growth adds to costs and uncertainties. The designation of growth areas should be aligned with the housing capacity targets.

Not all areas for future development will be able to be identified in regional strategies. Clear principles for the identification of smaller scale growth areas will be required, addressing housing needs, appropriate densities, infrastructure availability, built and cultural heritage contexts, contamination, considering and managing bushfire risks, sustainability and providing buffers to agricultural activity.

Prepare regionally relevant policy guidance for sustainable neighbourhood planning and development.

Planning for growth areas must consider a suite of complex issues over a lengthy timeframe, and councils often have limited resources to do so. Different and inconsistent council level approaches to planning for residential development have emerged, notwithstanding the available state level policy guidance.

Clear state-based regionally relevant guidance is required. This should identify how to undertake residential demand and capacity analysis, as well as incorporate best practice neighbourhood planning based on, for example, explicit housing diversity, social and affordable housing, open space, community infrastructure, active transport, and net zero carbon targets. The difference from past approaches is that these outcomes should be explicit and measurable.

Guidance should also cover how to use residential zones and other development controls to achieve desired outcomes in regional contexts. Other regional challenges often encountered in regional areas, such as the use of Native Vegetation Offsets and Public Acquisition Overlays need also be addressed.

Guidance should also be included on engaging with state government and local communities.

Regionally specific PSP guidelines may be a product of this direction.

3.6 Infrastructure for growing and resilient communities

Accommodating growth and creating new housing requires investment in both physical development and local community infrastructure, delivered at the right time, to support resilient communities.

At a Victoria-wide level regional rail connections and major freeways reinforce the desired overall settlement structure. For major regional cities faster connections to the Melbourne skills, labour and economic activities pool are a priority. Within regions local public transport, arterial roads and traffic works are required to unlock housing potential in new development areas. Effective transport planning, and the incentives and penalties 'in the system' also drive sustainable changes in travel behaviour and support the transition to less polluting modes such as public transport and electric vehicles. Other state infrastructure such as schools and health facilities should accompany development in a timely fashion.

Community infrastructure is the collective spaces and programs through which people socialise, learn, recreate, create, and celebrate culture. Councils in regional areas need the tools to plan for and fund new or upgraded infrastructure in a timely fashion, and to maintain infrastructure and services in small townships and dispersed settlements or where communities are experiencing social and economic disadvantage.

New directions for regional and rural planning

Align the State Infrastructure Strategy with the regional land use strategies.

Infrastructure Victoria produces a 30-year infrastructure strategy which is reviewed every 3 to 5 years and makes recommendations to the Victorian Government about infrastructure. The Government should demonstrate that its infrastructure priorities are aligned with the settlement and development directions included in the Plan for Victoria and region by region strategies.

The state infrastructure plan should support, as a minimum:

- The achievement of the roles and functions for regional cities and towns identified in the settlement hierarchy.
- Nominated major growth area development.
- The growth and development of identified state and regionally significant industrial and employment areas.
- The growth and development of rural and agricultural industries.

The plan would provide firmer commitments to the timing and funding of State-delivered infrastructure (arterial roads, drainage, schools, open space) for significant residential development.

Commit to development of infrastructure benchmarks and guidelines as a baseline for local planning.

The State Government needs to actively support councils to develop robust community infrastructure plans. To support councils the State should:

- Prepare community infrastructure provision benchmarks, including for open space, able to be adapted for individual communities.
- Community infrastructure guidelines for the local use of the benchmarks including identifying and supporting future partnership and funding opportunities.

For councils in regional areas with dispersed settlements, and sometimes slowing or declining populations in some areas, there is a need for innovations in infrastructure delivery models. The guidelines should include advice on managing infrastructure in these contexts.

Establish state guidance for open space contributions.

Currently there is no State Government guidance for the quantity of open space required for growing communities. Access to quality open space is critical in supporting wellbeing. In order to maintain and or improve access to open space the State Government needs to provide an open space provisions standard or ratio, such as a 30sqm per capita or alternative. An appropriate standard will support councils in undertaking adequate open space asset management planning as well as a basis for applying effective open space development contributions.

4. Plan delivery and system efficiency

4.1 Overview

An effective plan or framework for delivery of a Plan for Melbourne and regional plans could be said to be missing. Furthermore, the planning system as a whole – including its ability to deliver the aims of metropolitan and regional plans and other strategies and policies, and the expectations of the development industry and communities – needs review and reform. The Housing Statement has not addressed the fundamental challenges confronting the system. This constrains prospects for achieving its ambitious housing supply aims, let alone achieving a liveable, productive and sustainable regions.

A reform agenda to enhance plan delivery and establish a responsive system can be identified in four key areas, as follows:

1. **Governance** – how can responsibilities for implementing planning aims and strategies be allocated and strengthened?
2. **Regulation** – how can the system to regulate land use and development be improved in line with metropolitan, regional and place planning aims?
3. **Infrastructure Funding** – are the means to raise funds for infrastructure to support planning aims ‘fit for purpose’?
4. **Resources** – what needs to change to ensure effective implementation and administration of the system?

Each of these is considered below, with a discussion of challenges and issues followed by directions for reform.

4.2 Governance arrangements

Fragmented responsibilities

Responsibility for planning is currently shared between local and state government, and with an array of departments and authorities contributing to the process (see Appendix 1). Many aspects of this structure reflect genuine and appropriate divisions of responsibility and incorporate appropriate checks and balances.

However, there are also signs of unclear or split responsibilities, notably in the division of planning responsibilities between the Department of Transport and Planning, Victorian Planning Authority, and other state government bodies. This may lead to silo-isation and reduce the extent to which any single department or agency is taking overall responsibility for regional and rural planning.

Poor communication between state and local government

The fragmented authority at state level sits alongside problems with the relationship between state and local government that have contributed to difficulties in the operation of the planning system. Local councils are charged with the administration of a system over which they have relatively little control;

while the system gatekeepers and those responsible for system design at state government level have limited experience of the operational practicalities of using the system.

There is also a lack of clarity regarding the relative roles of state and local government decision-making. Some matters will genuinely be of state significance, but the current arrangements mean this distinction can be drawn on an ad hoc basis (as with Ministerial call-ins) or through arbitrary arrangements that do not necessarily reflect genuine significance (as with the array of special-purpose streams discussed in Appendix 1, including the recently added cl 53.22 – Significant Economic Development and cl 53.23 – Significant Residential Development With Affordable Housing).

A need for a strengthened regional planning system

On the significant matters in regions, such as the development of regional cities and their relationship to hinterland areas, managing conflicts which compromise rural and agricultural production, and priorities for major state infrastructure investment to catalyse housing development, a stronger regional planning perspective is necessary. It could be argued that the State Government with its state-wide mandate and often focussed on high value metropolitan development matters, does not ‘think regionally’. Similarly, while local Councils effectively champion their local communities, they can be less aware of important region-wide connections and relationships. While recognising that there are already regional development arrangements (for example there are nine ‘Regional Partnerships, across Victoria, though only eight RGPs, see Figure 7) these don’t typically have an institutional or decision-making status. Regional planning arrangements could be developed to support effective implementation of regional plans (the number and boundaries for the regions could be reconsidered, having regard to functional economies, the role of regional centres and transport connections).

FIGURE 7: REGIONAL GROWTH PLAN REGIONS



Source: <https://www.planning.vic.gov.au/guides-and-resources/strategies-and-initiatives/regional-growth-plans>

Lack of system stewardship

The divided – and sometimes unclear – roles of state and local government make strong communication between the two levels of government vital. Previous reviews of the system by the Victorian Auditor-General have criticised the state government’s system stewardship and stakeholder feedback mechanisms.³¹

This situation has contributed to system neglect, and the issues with planning system design are discussed in more detail at Section 4.3. However, at a governance level, recent system reforms including those included in the Housing Statement have focussed on interventions and diversion of applications to Ministerial assessment. This sits uneasily with the findings of the recent Independent Broad-Based Anti-Corruption Commission (IBAC) Operation Sandon Special Investigation. While that investigation focussed on local councils, it specifically noted that its finding about democratic decision-making at council level were equally applicable to Ministerial decisions. The increased concentration of power in an individual decision-maker with reduced scope for appeals (particularly by third parties) increases the integrity risks in the planning system.

Integrity and governance concerns

The Operation Sandon Special Report also raised the prospect of increased use of independent planning panels for planning permit assessment as an integrity measure. This is a matter that – as IBAC noted – would require further investigation. There are legitimate challenges to maintaining democratic involvement in the system under such a model given that (as discussed in Section 4.3) the Victorian system currently leaves a great deal of policy resolution to the planning permit application stage.

It is important that planning governance arrangements create a strong partnership between levels of government that share responsibility for the management of the system. Local government’s critical role needs to be more strongly and clearly acknowledged.

An opportunity to operationalise partnerships with Traditional Owners

The Victorian Government’s support for and progress towards greater self-determination and Treaty for Aboriginal Victorians should be applauded. All six domains or policy areas for which extended Aboriginal control is being considered are relevant to regional planning and related policy activity. “These domains are identified as (i) Children, Family & Home; (ii) Learning and Skills; (iii) Opportunity & Prosperity; (iv) Health & Wellbeing; (v) Justice & Safety; and (6) Culture & Country.”³²

³¹ Victorian Auditor-General, “Victoria’s Planning Framework for Land Use and Development”, May 2008 and “Managing Victoria’s System for Land Use and Development”, March 2017.

³² Federation of Victorian Traditional Owner Corporations 2022, A Comprehensive Treaty Model for Victoria, Discussion Paper 6, https://fvtoc.com.au/wp-content/uploads/2023/05/1413_FVTOC_Treaty_Paper_6_final.pdf

The development and implementation of a Plan for Melbourne and regional plans provides the opportunity to activate partnership and treaty arrangements. Traditional Owners can be incorporated into the governance arrangements for preparation and implementation of plans.

New directions for governance reform

Reinforce the critical role for local government in plan implementation and system stewardship.

This recognises the obvious position of councils as ‘content experts’. It could be included in MAV’s proposed MOU with the state government but would be manifest in any Plan for Victoria and component metropolitan and regional plans that clearly identify and justify circumscribed matters of state and metropolitan planning significance, with all other matters the responsibility of local councils with direction and guidance provided by state government.

Two key and relevant principles for confirming the respective roles of levels of government include:

- Responsibility for planning and decision making should by default be at the lowest possible level or closest to the communities impacted, except where otherwise justified by the significance and complexity of the matter (the principle of ‘subsidiarity’)
- Councils should have the opportunity to provide appropriate and genuine input into decisions even where they are not responsible or the decision-maker.

Establish stronger regional planning, coordination and implementation arrangements.

Regional plans need effective complementary governance and coordination. A dedicated focus on preparing and implementing the plan and its priorities is required, ideally with some devolved resources and decision-making powers. A spectrum of options at the regional scale, from modest to greater institutional reform is possible. A modest option would be a standing committee of relevant State Government ministers and departmental secretaries, incorporating formal engagement with councils within each chosen region. An advanced reform would be establishing sufficiently resourced regional planning directorates (including demographers, planners, economists, infrastructure experts), with boards consisting of majority appointed State representatives, but also Local Government elected representatives. An even more significant reform would be a series of regional planning authorities, with a ‘state-local’ democratic mandate and wider plan-making, infrastructure coordination and ‘regionally-significant’ development assessment powers. Traditional owners need to also be involved as equal partners in any institutional and governance reforms (see below).

Re-boot Development Victoria for orderly and innovative development in greenfield and infill areas, with a mandate to generate net community benefits (social, environmental and economic outcomes) over commercial returns.

A re-booted Development Victoria would play an active role in land purchase and development in regional areas, including a focus on land assembly, demonstration projects, and partnering with developers to prepare land for development. It would play a role in delivery and development to achieve the aims of the regional plans and projects of state or regional significance. This means it would prioritise net community benefit (social, environmental and economic outcomes) over narrow commercial returns.

It should be noted that in regional areas some Councils are already involved in land development to achieve strategic aims and to overcome market failures. A re-booted Development Victoria could provide partnership assistance to these and other councils consistent with an appropriate business case.

Establish Traditional Owners as equal partners in developing and implementation.

Traditional Owners should be integrally involved in decision-making about their Country. The self-determination and Treaty process in Victoria provides the platform for establishing the arrangements for true partnerships in relation to the development and implementation of a metropolitan plan for Melbourne and regional plans. A particularly relevant issue is the extent that Traditional Owners have a claim to value generated through the allocation and granting of development rights through the planning system. This needs to be better understood and explored as part of a meaningful approach to Planning with Country.

Commit to measurement of plan effectiveness.

The planning pillars, and the aims and objectives that are established for them, will provide the basis for identifying measurable targets.

Establishing a realistic set of targets represents a commitment to implementation of the Plan for Melbourne and regional plans. It is consistent with government moves to consider broader wellbeing outcomes in policy development and implementation. The Victorian State Government has already moved to apply the UN Sustainable Development Goals (SDGs), which include measurable targets, to state of environment reporting at the state level. There is likely to be existing relevant targets adopted by State Government which could be used or adapted.

4.3 Regulation

Cycles of ineffective review

The operation of the planning system has been subject to more than a dozen major reviews since the introduction of the VPP system in the early 2000s.³³ These have been accompanied by several major rounds of reforms, but criticisms of the planning system persist. These particularly focus on:

- Lack of policy certainty and clarity
- Insufficient progress in achieving key policy objectives – notably with regards to responses to housing affordability and climate change; and

³³ See the list at Rowley, Stephen. *The Victorian Planning System: Practice, Problems, and Prospects*, 285. The recent Independent Broad-Based Anti-Corruption Commission Operation Sardon Special Report could be added to this list.

- System inefficiency and delay.

These three key problems can be seen as inextricably linked – lack of policy clarity reduces system effectiveness, while at the same time making the system harder to administer and increasing regulatory burden for permit applicants.

In response, previous rounds of review have largely focussed on process reforms, many of which – such as the plethora of system streams described in Appendix 1 – have in fact increased system complexity. The reliance on targeted workarounds has diverted attention of system reform efforts away from the “core” system for everyday applications that do not qualify for special status. Because these system ‘streams’ typically involve diversion of applications to the Minister, such reforms also implicitly entrench the assumption that councils are a problem requiring circumvention, rather than vital partners in the administration of the system and delivery of plan aims and objectives.

Flaws in the regulatory paradigm

The ineffectiveness of previous rounds of system review (such as the Smart Planning program) suggests that there is a need for a paradigm shift in the way the Victorian regulatory planning system functions. As part of the recent Housing Statement the government has flagged a review of the *Planning and Environment Act 1987*. However it is not clear what aspects of the Act are considered of concern. While some reforms may indeed require legislative changes, generally the key structure of the system is set by the underlying VPP framework for planning schemes.

The VPP system is based on a combination of features, notably:

- Extensive use of discretion administered through the permit process to make decisions (with the number of as-of-right and prohibited matters minimised).
- Use of a highly discretionary, principle-based policy framework to guide those decisions.

The policy-based focus of the VPP framework is optimised for making decisions about matters that require a fully bespoke first-principles assessment. However, it is much less suited to dealing with common application types efficiently.

This approach leaves a great deal of policy resolution to the planning application stage. This has created an efficiency burden, as applications become harder to process and applicants have less clarity about acceptable outcomes. It reduces the effectiveness of the system, as outcomes are less dependable and resolution of policy questions frequently shifts to forums such as VCAT. And as the Operation Sandon Special Report noted, the “broad scope of plausibly correct decisions” can foster integrity concerns by making inappropriate and improper decisions harder to pinpoint.

A proliferation of “workarounds”

Recent years have seen a proliferation of special streams and assessment clauses designed to facilitate certain categories of development (see discussion in Appendix 1). These often involve Ministerial / Departmental assessment of qualifying proposals. This has further complicated the allocation of planning responsibilities between state and local government.

It is increasingly clear that the VPP, and the principles of system design underpinning them, will need significant reform to achieve more effective, efficient and transparent implementation of planning goals.

New directions for planning system and regulatory reform

Undertake a regulatory audit of the VPP provisions for plan delivery and planning system efficiency,

This would have a focus on:

- Reviewing whether regulatory provisions reflect strategic intent.
- Ensure provisions accord with regulatory best practice (see breakout box below).
- Aligning the type of provisions with the complexity of matters.
- Improve guidance for regular application types and high priority policy issues such as housing supply and climate change.
- Aligning processing and assessment of applications with the most appropriate decision-maker.

Recognise councils as co-stewards of the planning system, including through structured stakeholder engagement and feedback in system reforms.

Previous reviews of the system by the Victorian Auditor-General have been critical of the existing stakeholder feedback and performance monitoring frameworks. This is a problem for all users of the system, but especially concerning for councils. Councils act as the responsible authority (administering and enforcing planning schemes) for most matters, and effectively co-author planning schemes by providing local content and leading the application of zones and overlays. However, this role as co-stewards of the system with the state government has not been sufficiently respected.

Previous submissions to government by the Municipal Association of Victoria have highlighted concerns that consultation with councils over system reform has been insufficient.³⁴ Major reform announcements frequently catch Councils by surprise, with profound implications for both their strategic planning, and day-to-day operations of the system.

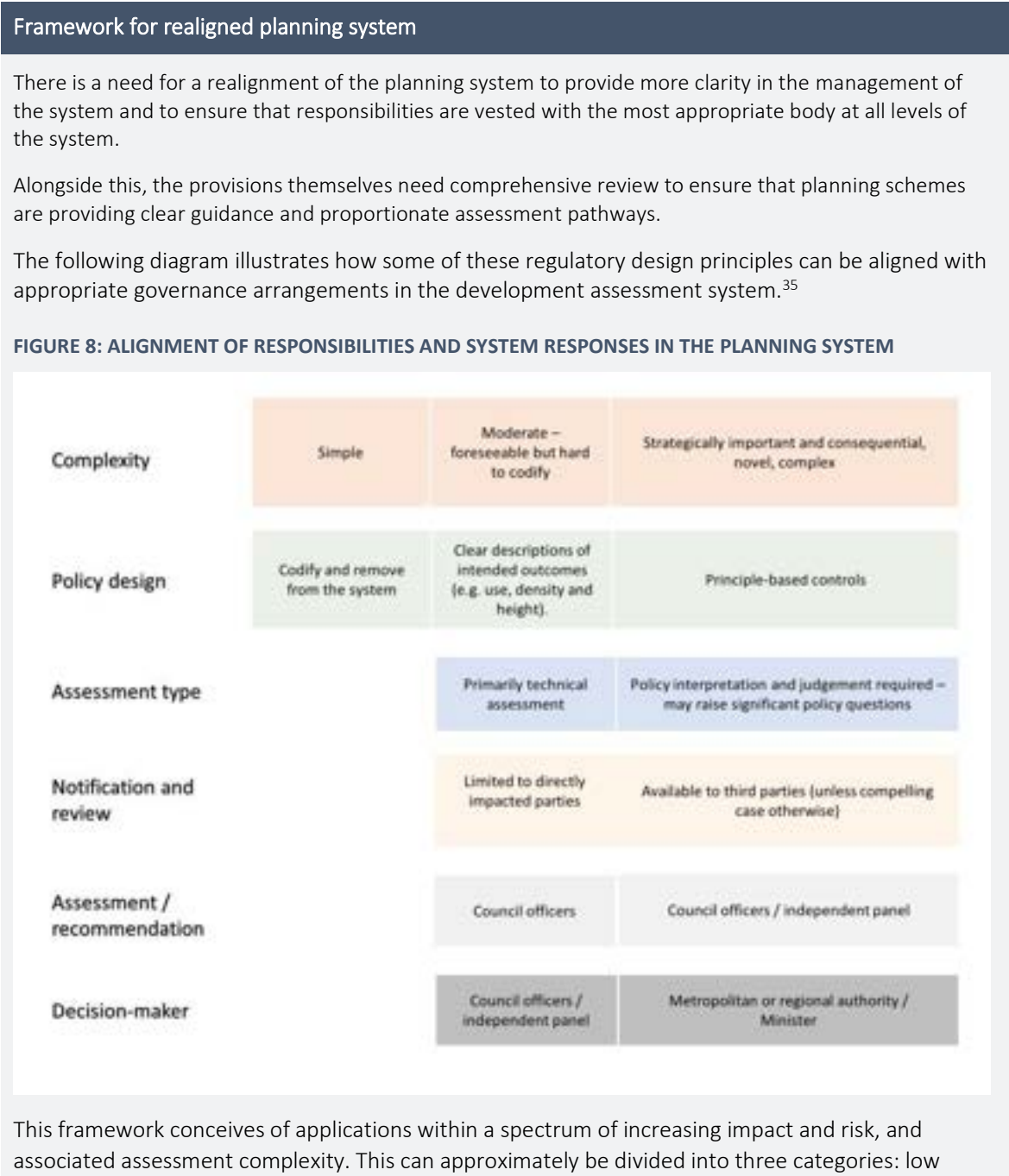
More structured stakeholder feedback mechanisms, especially with councils, would help drive cultural change and signal more genuine engagement.

Provide more structure and rigour to the way variations to discretionary provisions are considered and assessed through VPP reform and guidance documents.

Victoria's highly discretionary planning framework has long been recognised as creating inefficiencies and inconsistent outcomes. The extent of routine variations to provisions such as height controls erodes community trust in the planning system, reduces clarity for applicants, and fuels land speculation (which ultimately inflates property costs). Routine variations to planning provisions also creates integrity risks, as it makes improper decisions harder to detect. While this can partly be

³⁴ https://www.mav.asn.au/__data/assets/word_doc/0019/5734/Submission-on-SMART-Planning-Reforming-the-Victorian-Planning-Provisions-Dec-2017.docx,
https://www.mav.asn.au/__data/assets/pdf_file/0018/29601/MAV-submission-to-Parliamentary-Inquiry-into-Victorias-Planning-Framework.pdf

addressed through greater use of tools such as mandatory controls, there is also scope to tighten guidance on the exercise of discretion through VPP reform guidance and documentation, thereby providing for a more consistent, efficient and transparent system.



³⁵ This framework builds on recent work by the Planning Institute of Australia’s Victorian Division (<https://www.planning.org.au/documents/item/12618>) as well as Rowley, Stephen, *The Victorian Planning System: Practice, Problems, and Prospects* Second Edition, Federation Press, 2023).

impact applications that raise few if any genuine planning issues; the common applications requiring assessment, but which raise known or foreseeable issues; and more strategically complex or novel applications. This seeks to embed the following principles of system design.

The system should be targeted to where it adds value

At the level of policy and scheme design, the system should aim to remove the simple applications from the system wherever possible, by better targeting the system to define acceptable outcomes and remove permit requirement.

The system should give clear answers to common dilemmas

Common applications are less likely to be removed from the system, but schemes should aim to give as much clarity about intended outcomes as possible, for example through detailed descriptive policy or form-based codes (a density measure such as Floor Area Ratio, a core element in all planning controls in NSW, could be considered).

The system should provide a principles-based framework for novel matters

For complex applications, there is less likely to be clear policy guidance and the principles-based guidance of the Planning Policy Framework becomes more important to guide first-principles strategically driven decisions. (The Victorian system is currently well-attuned to this kind of application.)

Assessment pathways should align with risk, importance, and complexity

Assessment pathways should follow from the above scheme settings. Simple applications ideally will not require assessment. Planning judgement will be required for the common applications, although this should primarily involve assessment against codes and guidance formalised in the scheme. The complex and novel applications require more first-principles policy judgement and strategic decision-making.

Notice and review rights are an important part of the system

Notice and review rights have long been embedded in the Victorian system and play an important role in maintaining the system's democratic accountability and integrity. These rights should not be removed or traded as part of fast-tracking exercises. Instead, the extent of third-party involvement should flow from the importance of the matter.

The decision-maker should align with the importance and impact of decisions

The choice of decision-maker should follow in a logical manner from this framework. Councils should remain central to processing of the applications, with the bulk of common applications processed at officer level. More significant applications can then be elevated to councillor decision-making. It is appropriate for the Minister to make decisions on matters of genuine state significance, with a genuine role for input and support from councils.

Elected decision-makers should always respond to independent and publicly available reasons

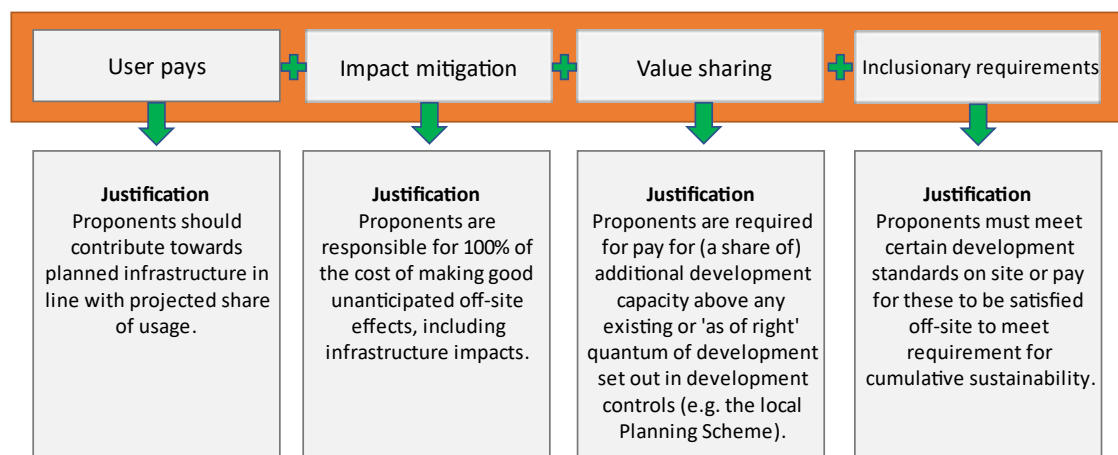
The IBAC Operation Sandon report advocated for independent planning panels to make decisions in response to concerns about councillor conduct. The Victorian Auditor-General has previously expressed concern about governance of Ministerial decision-making, particularly with regards to the reasons provided for decisions (as the Minister does not typically provide or respond to a publicly available assessment. This model responds to these findings by adding a role for a metropolitan and regional authority – which would include council representation – to prepare reports with publicly available recommendations to underpin council and Ministerial decision-making. There may also be scope for some decisions to be made by the authority itself.

A full suite of fit for purpose development contributions is not available to support growth.

A fit for purpose infrastructure funding system is vital, particularly for local councils who are at the front line of supporting growth.

SGS has long advocated that development contributions generally fall into one of four mutually exclusive and additive categories, as shown in Figure 9.

FIGURE 9: FOUR FRAMES OF DEVELOPMENT CONTRIBUTIONS



These 'frames' are helpful in understanding existing development contributions in the Victorian system, and identifying issues and gaps.

User pays charges are the basis of Development Contribution Plans, where future infrastructure costs are apportioned to future development. These are widely used in the metropolitan area (but are more limited in regional areas) and establish an appropriate discipline for councils to undertake forward planning for local infrastructure. In theory they also provide 'price signals' to direct development to 'least cost' locations in the first instance (because new development will pay a lower cost where existing infrastructure is available or has capacity).

Some councils have not prepared DCPs in regional areas or have not kept them up to date. In these cases, vital funding for infrastructure is being foregone. Support for the preparation and management of DCPs needs to be improved with more assistance and tools. In some infill and regional areas it may be onerous to prepare full and detailed DCPs.

Impact mitigation contributions would typically be imposed as permit conditions or established through a section 173 agreement (negotiated in-kind infrastructure contributions provided by developers). Greater clarity on this development contribution category, examples of infrastructure it could cover, and how it can be quantified and applied would support councils.

Value sharing, or ‘value capture’ contributions are premised on the state reservation or ‘ownership’ of development rights³⁶. They are imposed in two principal ways in Victoria; via the Growth Areas Infrastructure Charge (GAIC) which applies to ‘greenfield’ development with the Urban Growth Boundary, and the Windfall Gains Tax (WGT) introduced to capture gains associated with land value uplift from planning decisions. The WGT doesn’t apply to GAIC affected land within the UGB, and the de-facto value capture charge represented by the GAIC in these areas has fallen behind in effectively capturing value uplift. A dual system of state levied charges and taxes associated with development has emerged.

Furthermore, the WGT presents the prospect of competing and contested valuations for the post and pre rezoning values, upon the difference of which the WGT will be based. This raises the prospect of undesirable and increased uncertainty in the development process. A foundational principle is that a developer of land should be able to reasonably estimate the costs associated with future development – alongside revenue estimates – recognising prospects for changes at the margins, so that bids for land can reflect this knowledge. The WGT regime may not be sufficiently transparent about the prospective WGT to enable this.

The call for a mechanism to capture windfall gains in the Operation Sardon report presents the opportunity to establish a unified state level value capture mechanism, to apply in both greenfield and non-greenfield contexts.

Inclusionary requirements are established via, for example, mandatory car parking provision rates in Planning Schemes and open space contributions in the subdivision legislation. These examples, and other expectations of development in the planning system, illustrate how inclusionary requirements are a means of providing ‘essential infrastructure’ which we take for granted in creating liveable communities. This perspective highlights how social and affordable housing might also be an inclusionary requirement, considered as critical or essential infrastructure at a local level.

In 2022, the Victorian Government announced a 1.75 per cent Social and Affordable Housing Contribution (SAHC) on all new developments of three or more dwellings in metropolitan Melbourne, and the Greater Geelong, Greater Bendigo and Ballarat local government areas. This was to provide funding for approximately 1,700 new social housing units annually.³⁷ It was in effect a widely applied inclusionary levy. This landmark reform was abandoned a week later.³⁸

³⁶ Australian Government (July 2023) Barriers to Institutional Investment, Finance and Innovation in Housing, Interim National Housing Supply and Affordability Council, https://nhsac.gov.au/_assets/downloads/barriers-to-institutional-investment-report.pdf

³⁷ Building a Secure Housing Future for Victoria, <https://www.premier.vic.gov.au/building-secure-future-social-housing-victoria>

³⁸ Premier of Victoria, Statement on Planning Reform Package, 01 March 2022. As at <https://www.premier.vic.gov.au/statement-planning-reform-package>

New directions for infrastructure funding

Establish a ‘pre-scheduled’ value capture contribution (‘development licence fee’) to replace the Windfall Gains Tax and GAIC with council land exempt and a share of revenue distributed back to councils.

An explicit or ‘known’ development licence fee would be calculated on the uplift in value generated through more intensive use of land made possible by development consents or rezonings, varying as a \$/sqm rate by use by precinct. The system would be similar to the Lease Variation Charge in the ACT where, through the leasehold land tenure system, the Territory Government explicitly retains ownership of development rights. Development proponents must pay a charge geared to 75 per cent of the uplift in lease value once planning permission has been secured.

There is a strong case to be made that council land should be exempt from a value capture charge or development licence fee, where it can be demonstrated that land value uplift is utilised for delivering public benefits. Furthermore, a share of any revenue generated by this development licence fee, should be returned to local government, based on growth shares or some other relevant criteria, to assist in infrastructure funding. This is particularly important in regional areas where funding for catalyst infrastructure in more marginal feasibility contexts may be more limited.

Better align water authority and other state infrastructure funding and planning with regional land use planning.

In many regional contexts the willingness or otherwise of the regional water authorities to fund water and sewerage infrastructure is the single biggest determinant of prospective housing supply. There can be a poor alignment between water authority servicing plans and strategic or preferred development phasing. The investment programming and funding parameters for water authorities need to be in the service of regional land use planning. The water authorities and other key infrastructure provision agencies need to be ‘in the tent’ and aligned to the land release and residential development aims of the regional strategies.

Establish a system of standard rates for local development contributions in parallel with DCPs.

This would refine the current system of Infrastructure Charges Plans by enabling councils to choose ‘off the shelf’ infrastructure charges that vary by development context and/or place typology (e.g. activity centre, regional infill and regional greenfield) and are set conservatively (i.e. lower) than what is likely to be possible via an appropriately prepared DCP. The DCP pathway would still be available.

Local infrastructure planning linked to land use change would be anticipated in pursuing either approach.

Establish a financing mechanism to forward fund local development infrastructure.

Barriers to the financing of lead and trunk infrastructure (particularly drainage and roads) to support timely and in-sequence housing development is a constraint on efficient housing supply. ‘First-mover’ developers are reluctant to finance early infrastructure cost, and councils are unwilling or unable to borrow to finance the works (particularly where future receipts from Development Contributions may be uncertain, in modest or low growth contexts which can be typical in regional areas). The State

should establish a financing facility to cover the upfront costs of infrastructure where this is demonstrably a barrier to a development pipeline, secured against future receipts from DCPs.

Establish a mandated Social and Affordable Housing Contribution.

The development process has a role to play in the delivery of (subsidised) social and affordable housing, as essential infrastructure benefitting all development and communities. Councils, the development industry and community housing providers have all identified that the current approach of site by site negotiations is ineffective so a mandatory contribution is required. The previous proposal for a Social and Affordable Housing Contribution should be revisited and revised to ensure a broad base of development is liable (including on non-residential development, and in areas outside metropolitan Melbourne and regional cities), contribution amounts are as clear as possible, and to minimise disruptions to existing development (i.e. introduced with a reasonable lead time of say 2-3 years and then phased up with the rate of contribution low initially and increasing over time).

Local government should be involved in advising on where and how contributions would be invested, having regard to housing needs and demands and meeting strategic planning objectives. In regional Victoria directing funding to the development of key worker or essential housing may be a particular priority.

4.4 Resourcing

Local government in Victoria faces a financial sustainability gap.

The Municipal Association of Victoria (MAV) and Local Government Finance Professionals (FinPro) recently developed a dataset to demonstrate the financial sustainability of Victorian councils.³⁹

It identifies four risks to financial sustainability, some of which have already been mentioned in this paper:

- Deteriorating underlying surplus across local government.
- A significant asset renewal gap.
- The compounding effect of a rate cap which has consistently been set below the cost increases experienced by councils.
- A limited and reducing unrestricted cash position of many councils.

Local government's financial autonomy and capacity when confronted with increased responsibilities and the need to play a meaningful role in partnership with the state government to manage the growth challenge needs to be addressed.

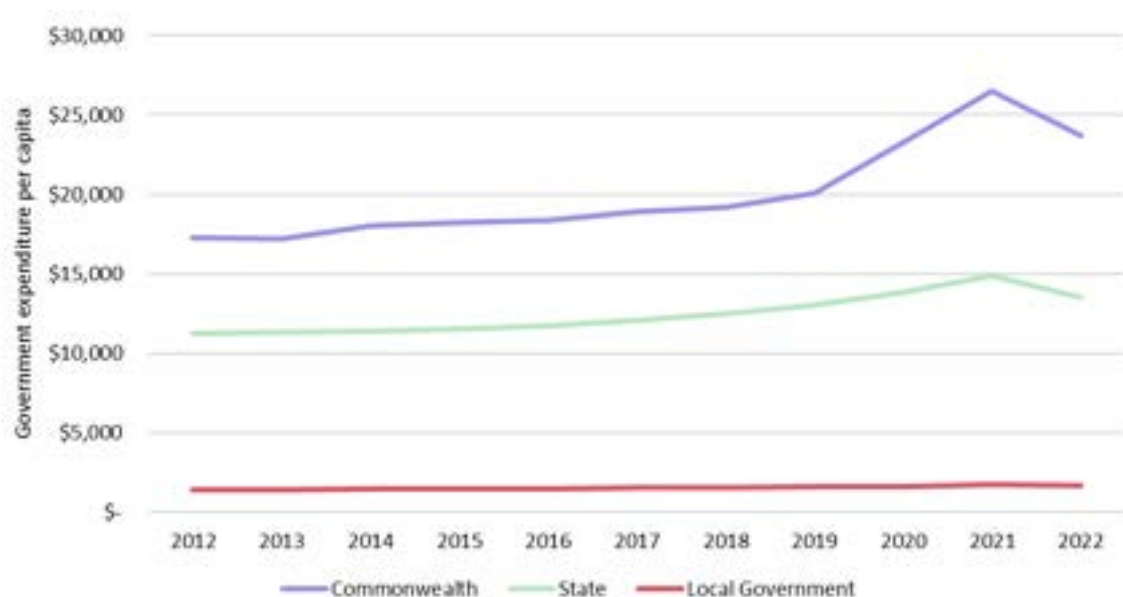
³⁹ The Sustainability Gap – the financial health of Victorian councils, <https://new.parliament.vic.gov.au/4ad645/contentassets/af06ba8f75c9461cbcc882e54ae82b8d/mav---handout.pdf>

As the dataset document points out:

Councils are often perceived as being financially strong based on total cash holdings. It is critical to understand that much of this cash is 'restricted' in nature, linked to statutory or contractual obligations such as developer contributions for the funding of infrastructure. Unrestricted cash has been steadily decreasing. This decline potentially affects the ability of councils to make discretionary investment in local priorities and aspirations. Reduced unrestricted cash also reduces the capacity and ability of Council's to maintain infrastructure and react effectively in the event bushfires, floods, or other emergencies.

This reduced unrestricted cash position is significantly linked to the State Government imposed system of rate-pegging in Victoria, which imposes a revenue raising restriction on local government that isn't applied to other levels of government. Figure 10 shows that while state and Commonwealth government expenditures per capita have been gradually and then rapidly increasing over the past decade (with a dip post-Covid), local government expenditure per capita has remained stagnant (and has thereby declined in real terms given inflation), remembering that rate-pegging is in place in New South Wales and other states as well.

FIGURE 10: GOVERNMENT EXPENDITURE PER CAPITA IN AUSTRALIA BY GOVERNMENT SECTOR (2012-2021)



Source: ABS, 2022, Government Finance Statistics, Annual, 2021-22 financial year

A severe shortage of planning staff and resources

The achievement of planning objectives, and general planning system functioning, is being compromised by a severe shortage of urban and regional planners.

The Planning Institute has noted that 'the worsening skills shortage was revealed in Jobs and Skills Australia's (JSA) annual Skills Priority List, which shows that 'urban and regional planner' was one of the

occupations assessed as being in shortage in 2023 but not in 2021...with a shortage in every state and territory except the ACT'.⁴⁰

Even in 2019 the MAV called for 'the Victorian Government, councils, and the planning profession work together to address the skills shortage and boost the number and capability of planners within local government'⁴¹. This shortage of planners is being felt in metropolitan Melbourne and is particularly acute in regional Victoria for most councils.

New directions for local government resourcing

Remove rate capping for enhanced fiscal independence of local government.

Supporting and recognising local government as a true partner in implementation requires an increase in the sector's fiscal and operational autonomy. Removing or reforming rate capping, with appropriate accountability, to liberate councils to match revenues to increasing responsibilities, and meet community expectations and needs for better infrastructure and services, is an overdue reform.

Provide targeted funding for planning scheme amendment work undertaken by local government.

Keeping planning controls up to date and consistent with the Plan for Melbourne or regional plans is a critical and fundamental role of councils. A new Plan for Melbourne and regional plans, and an upfront investment in a supporting Operational Plan and improved ministerial guidelines, will reduce costs in plan-making and planning scheme amendments but the latter are still costly to 'get right'. A dedicated revenue source for the work of councils on planning scheme amendments is warranted. This could potentially come from the revenue generated by the proposed 'development licence fee' (value capture charge) or from an expanded Metropolitan Planning Levy or new Regional Planning Levy.

Work with local government to prepare a workforce plan for strategic and statutory planners.

Addressing the shortage of planners is an urgent priority. The state government should make this a priority, working alongside local government, the industry and the education sector.

⁴⁰ PIA, New data shows growing shortage of planners, <https://www.planning.org.au/news-archive/2021-2023-media-releases/new-data-shows-growing-shortage-of-urban-planners---bad-news-for-housing-regional-communities-transition-to-net-zero>

⁴¹ MAV (2019) Planning and Building Approvals Process Review Discussion Paper, https://www.mav.asn.au/__data/assets/word_doc/0019/24256/Submission-to-Red-Tape-Commissioner-Planning-and-Building-Approvals.docx

5. Whole of government operational plans

Regional plans that fully address the five pillars agenda will inevitably be ambitious in scope with implications for the activities and actions of multiple stakeholders within and outside of government. The reforms across governance, regulation, infrastructure funding and resourcing will generate new capacity for effective implementation across government and local government, enabling a greater ‘whole of government’ and coordinated capability than currently exists.

To ensure a coordinated approach to progressing strategic planning objectives, a separate operational plan is recommended (one for each metropolitan and regional plan).

Prepare a separate operational plan to guide whole-of-government implementation of strategic plans.

Plan Melbourne was accompanied by an implementation plan and annual progress reports – but was meant to also be supported by sub-regional land use framework plans to resolve detail at a finer grain level (these were never finalised). The prospects for effective implementation of metropolitan and regional plans can be strengthened with an operational plan that combines and enhances the intent of this previous implementation framework by focussing on priorities and roles, prepared via a participatory process involving local government, key agencies and authorities.

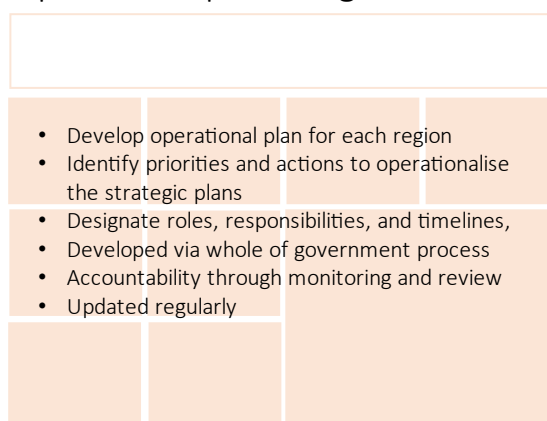
The operational plan(s) should embody a manageable agenda, with realistic resourcing requirements, and be dynamic and updated regularly. This is in contrast strategic plans that are or should be, by design, long-lived rather than contingent.

FIGURE 11: POTENTIAL FRAMEWORK FOR STRATEGIC AND OPERATIONAL PLANS

Strategic plans to set directions



Operational plans to guide actions



An updated suite of policy guidance and other support material such as population and dwelling and employment forecasts, as well as complementary plans and policies would also be anticipated.

Appendix 1: Current governance arrangements

The management of the planning system is currently shared between state and local government. While this is common in Australian jurisdictions and has advantages in ensuring consistency and policy coordination, it also presents challenges. The structure of planning governance has also contributed to system complexity.

State government, local councils and the VPP planning system

The state government controls the planning system, with the system operating under state legislation (the central pillar being the *Planning and Environment Act 1987*) and the Minister for Planning having final approval power over all content in planning schemes. This is achieved through the requirement that the Minister approve all planning scheme amendments, as well as through the control of the underlying toolkit of the Victoria Planning Provisions (VPPs). These are the toolkits out of which planning schemes must be assembled, and include state-wide policy provisions as well as a suite of standard planning tools. The state government also sets overarching strategy, which relevantly includes the Melbourne metropolitan strategy *Plan Melbourne 2017-2050*.

The state government therefore controls the legislative framework, sets the key policy directives, and has stewardship over the planning system itself.

Within this framework local government set more detailed policy for their local area (subject to Ministerial approval). They also undertake most of the day-to-day administration of the system by processing and deciding most planning applications.

State Government Departments and Agencies

The primary support for the Minister for Planning as custodian of the system is the Department of Transport and Planning. This provides system stewardship across governments and undertakes some Ministerial functions under delegation.

However, an array of other government agencies contribute to metropolitan planning outcomes, notably:

- The Victorian Planning Authority: an authority focussed on structure planning for growth areas and major urban renewal precincts.
- Infrastructure Victoria: an advisory authority that provides advice to government about infrastructure.
- Development Victoria: the government's property development and urban renewal corporation.

- Homes Victoria: A subsidiary of the Department of Families, Fairness and Housing focussed on delivering social and affordable housing.
- Referral authorities: Many different agencies provide expert input into planning decisions that affect specific interests as referral authorities. Examples include the Environment Protection Authority, transport authorities, utility companies, and catchment management authorities.

VCAT and Planning Panels Victoria

The Victorian Civil and Administrative Tribunal (VCAT), through its Planning and Environment Division, acts as the appeals body for disputes around planning permit decisions, along with a procedural disputes about planning processes.

While VCAT decisions do not have the status of formal legal precedent, as the usual final arbiter of contested planning matters, VCAT's approach serves an important role in shaping planning practice. While VCAT is not intended to take a policy role, in practice the Tribunal may also play a role in shaping outcomes where difficult calls are left to the Tribunal, or where system neglect or lack of clarity in policy leaves it determining important issues.

Planning Panels Victoria is a body nested within the Department of Transport and Planning that provides staffing and administrative support to advisory bodies under several pieces of legislation, notably planning panels (which advise the Minister about planning scheme amendments), advisory committees (ad hoc committees appointed to consider a specific issue at the direction of the Minister) and environmental effects inquiries (which are part of the environmental impact assessment process undertaken under the *Environment Effects Act 1978*).

Ministerial Interventions, Call-ins and Special Purpose Streams

While the overwhelming majority of planning decisions are made by local government, the Minister for Planning has multiple routes to decide applications if they wish to.

For example, the Minister may:

- "Call in" and determine applications on an ad hoc basis from the council.
- "Call in" and determine applications from VCAT.
- Amend the scheme to make themselves the responsible authority for particular proposals, locations, or categories of proposal.
- Amend the scheme so that a proposal does not need a permit, or to embed an approval within the scheme.
- Amend the scheme and issue a planning permit simultaneously to approve a proposal (including in instances where a development would be prohibited under current controls).

In addition, an increasing array of provisions have been included in planning schemes to provide special assessment provisions or processes for certain categories of development. These are typically related to government projects, delivery of housing, or matters deemed of high economic value. Examples include:

- Clause 52.20 – Victoria' Big Housing Build

- Clause 52.30 – State Projects
- Clause 52.31 – Local Government Projects
- Clause 52.35 – Major Road Projects
- Clause 52.36 – Rail Projects
- Clause 53.19 – Non Government Schools
- Clause 53.20 – Housing By or on Behalf of Homes Victoria
- Clause 53.21 – State Transport Projects
- Clause 53.22 – Significant Economic Development
- Clause 53.23 – Significant Residential Development With Affordable Housing
- Clause 53.24 – Future Homes.

Several of these clauses were added or expanded in scope as a result of the recent Housing Statement, summarised earlier, suggesting an increase in focus on these mechanisms.

For less consequential developments, the VicSmart program provides a stream for proposals that are exempt from notice and not subject to a councillor decision (as the council's CEO is made the responsible authority).

The structure above is in part a reflection of a deliberate attempt (espoused in several system reviews) to increase the number of system "streams" to provide additional system flexibility to deal with applications of different sizes. However, it also reflects a tendency toward system workarounds that bypass normal processes for favoured application categories.

CANBERRA / NGAMBRI /
NGUNNAWAL / NGARIGO

Level 2, 28-36 Ainslie Avenue
Canberra ACT 2601
+61 2 6257 4525
sgsact@sgsep.com.au

HOBART / NIPALUNA

PO Box 123
Franklin TAS 7113
+61 421 372 940
sgstas@sgsep.com.au

MELBOURNE / NAARM

Level 14, 222 Exhibition Street
Melbourne VIC 3000
+61 3 8616 0331
sgsvic@sgsep.com.au

SYDNEY / WARRANG

Suite 2.01/50 Holt Street
Surry Hills NSW 2010
+61 2 8307 0121
sgsnsw@sgsep.com.au

