



Image source: CCCLM website

The critical role of our capital cities

June 2025

Prepared for the Council of Capital City Lord Mayors



Contents

Snapshot	04
Introduction	07
The evolving role and challenges facing our central cities	09
Five critical roles of Australia’s capital city centres	12
1. Knowledge generation	14
2. Supporting productivity across the economy	17
3. Generating exports directly and indirectly	20
4. Leveraging Australia’s skills	23
5. Command and control	26
Actions to boost the economic contribution of capital cities	28



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

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Snapshot

SNAPSHOT

Australia’s capital city centres are key players in our national economy. This report explores the following five critical roles of central cities:

- 1. **Knowledge generation** – our central cities are host crucial assets in the nation's innovation system
- 2. **Supporting productivity** – IT, legal, design, finance, engineering and other strategic functions consolidate centrally in our cities and recycle their insights to support businesses in all sectors across the country
- 3. **Generating exports directly and indirectly** – central cities generate substantial exports directly through cultural tourism and attraction of international students; the business services clustered in central cities area are also crucial to the competitiveness of Australia’s exports in mining, agriculture and manufacturing.
- 4. **Leveraging Australia’s skills** – as the most accessible parts of the biggest labour markets in the country, central cities can leverage broad and deep pools of skills, providing firms with substantial productivity gains
- 5. **Command and control** – Australia’s central cities host the headquarters of major enterprises and central government functions. The strategic direction of these anchor entities are planned in our central cities.

<div>22.5%</div> <div>The share of our capital cities’ contribution to GDP.</div>	<div>0.03%</div> <div>Land size of our capital cities as a percentage of Australia’s land mass.</div>	<div>3.21 million</div> <div>Total jobs in our capital cities</div>	<div>2.39 million</div> <div>Population of our capital cities</div>
<div>\$43 billion</div> <div>Value of inputs our central cities provide to Australia’s exports. Of this, \$17 billion is for business services</div>	<div>\$48 billion</div> <div>Total value of international education exports</div>	<div>99%</div> <div>Patents registered within 10 kilometres of Australia’s capital cities</div>	<div>92%</div> <div>ASX listed companies headquartered within 10 kilometres of our capital cities</div>

Introduction

INTRODUCTION

Project scope

Australia’s capital city centres play a dominant role in our national economy, yet Australia’s Capital City municipalities face challenges in servicing growing community and business needs. SGS Economics and Planning (SGS) was engaged by the Council of Capital City Lord Mayors (CCCLM) to investigate this challenge, to appraise the value which central cities bring to the national economy, and to provide examples of how governments around the world have intervened to enhance this strategic economic contribution.

Structure of this report

This report provides a summary of the evolving role of our capital cities, then explains and evidences five critical roles that our central cities play in the national economy. These are:

1. Knowledge generation
2. Supporting productivity across the economy through provision of advanced business services
3. Generating exports directly and indirectly
4. Leveraging Australia’s skills
5. Command and control

Following the review of the five critical roles, interventions which can boost the economic contribution of capital cities are explored by drawing on illustrative case studies from around the world.

The evolving role and challenges
of our capital cities

THE EVOLVING ROLE AND CHALLENGES FACING OUR CAPITAL CITIES

Our capital cities have evolved over time to become the vibrant centres we know them as today. They are critical to the health of our national economy, our cultural identity, and our social connectedness. The ongoing success of our central cities is not guaranteed, and investment and policy intervention is necessary to propel our capital cities in a direction that best serves our economy and our citizens. Fundamentally, when Australia’s capital cities do well, our nation does well.

The distinct and critical role of the capital cities in the national economy

As shown in the top right figure, Australia’s economy in the early and middle parts of the 20th century was characterised by:

- A strong agricultural base, particularly up until the early 1950s
- A growing manufacturing sector, which peaked in the early 1960s when it contributed nearly 30 per cent of Australia’s Gross Domestic Product (GDP), and
- A relatively insignificant business services sector.

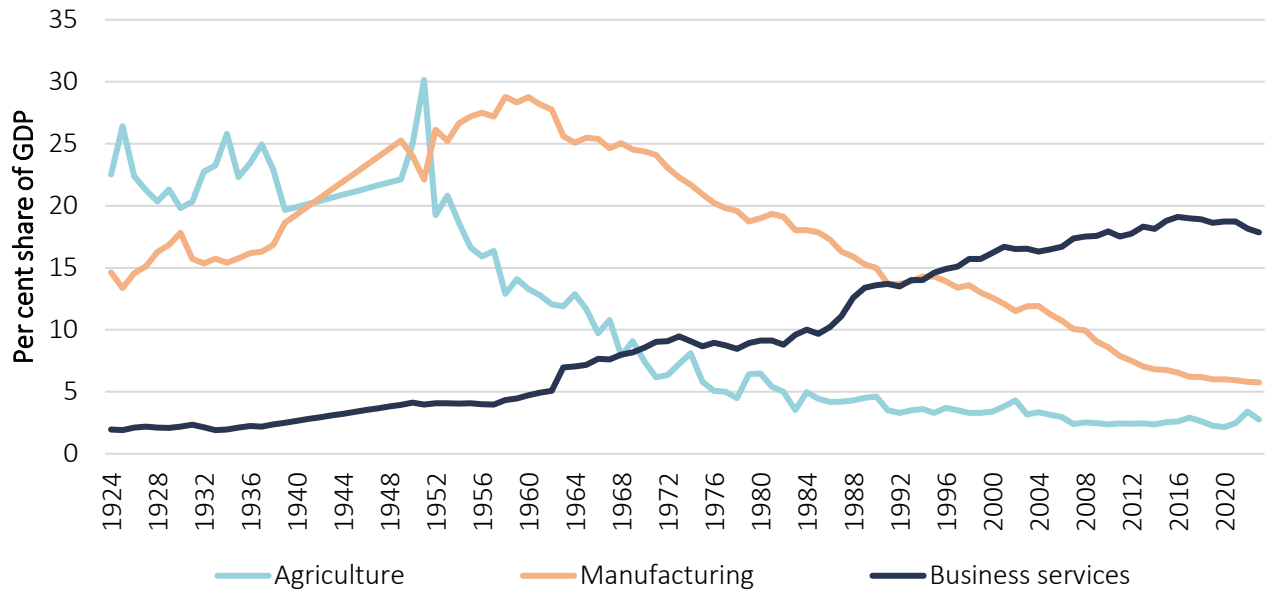
During this period, Australia’s Capital City municipalities played a prominent role in their metropolitan and wider economies and suburban areas hosted fast-growing stocks of well-paid jobs. This dynamic began to change from the 1980s due to accelerated global market liberalisation. In Australia, such policies saw our cities focus on the ‘thinking’ part of the value chain, which includes functions like design, brokerage, finance and research, while our trading partners became the ‘workshop of the world’. This resulted in the following changes to our economy:

- Continued decline in the share of GDP of our agricultural industry, to around 2.5 per cent today, though in absolute terms, the value of agricultural output is today at historic highs
- Decline in the prominence of our manufacturing sectors to just over 5 per cent today, though, contemporary manufacturing output exceeds that of the post war boom years
- A rapidly rising importance of our business services sector, to around 20 per cent of GDP today.

These shifts reflect, firstly, the outsourcing of certain on-farm and in-factory functions to specialised business service providers. Secondly, these outsourced providers have become agents of innovation for their client farmers, manufacturers and others, because of their specialised knowledge and learning networks. Meanwhile, these knowledge intensive business service providers have gravitated towards the central regions of our cities, where they can best tap into the metropolitan pool of workers with advanced skills.

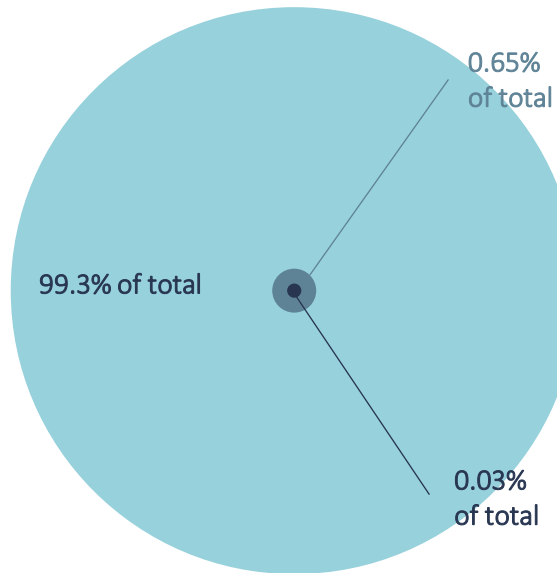
These changes have seen Australia’s capital cities rise in importance, while suburban activity centres have shifted away from manufacturing and knowledge-based services towards more population-serving industries, such as consumer goods and day-to-day services. Today, our central cities are the engines of our economy. As shown in the bottom right figure, our central city regions make up just 0.03 per cent of Australia’s total landmass, yet they contribute 22.5 per cent of our total GDP.

100 years of change in selected major industries



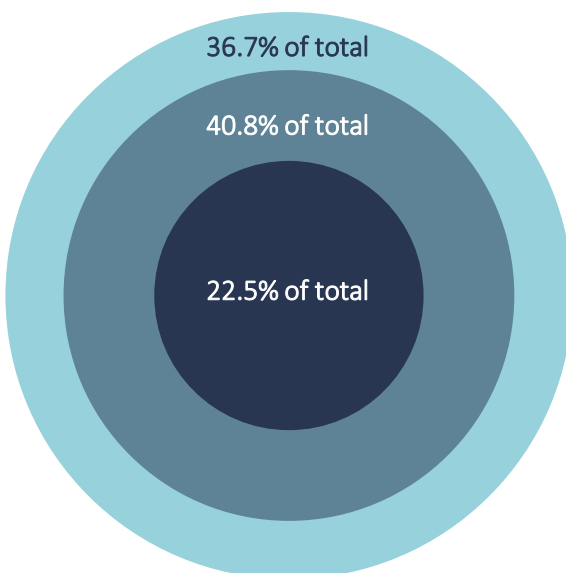
Source: Australian Bureau of Statistics, compiled and illustrated by SGS

Distribution of Australia by land size



- Central city regions: 2,500 square km
- Greater city regions: 52,750 square km
- Australia: 7.75 million square km

Contribution to GDP by region



- Central city regions: \$530 billion
- Greater city regions: \$1.49 trillion
- Australia: \$2.41 trillion

Source: .id data, compiled and illustrated by SGS

THE EVOLVING ROLE AND CHALLENGES FACING OUR CENTRAL CITIES

The challenge of enhancing our capital cities to boost national economic growth

The consolidation of our capital cities as 24-hour retail, hospitality, leisure, cultural and entertainment hubs, combined with improvements to public transport systems, has also resulted in a considerable uplift in the number of Australian citizens and tourists who visit our capital cities each year. Yet the local governments of our capital cities face significant constraints to improve how people move within the region and how they engage with and enjoy the public realm. The challenge begins with the fact that local governments make up less than 5 per cent of total government spending. For instance, in 2022-23, spending per capita was around \$24,000 from the Commonwealth, \$13,500 from states/territories, and just \$1,800 from local governments. SGS analysis also found that local government spending has lagged inflation over the previous decade¹.

Other resourcing challenges capital cities experience include:

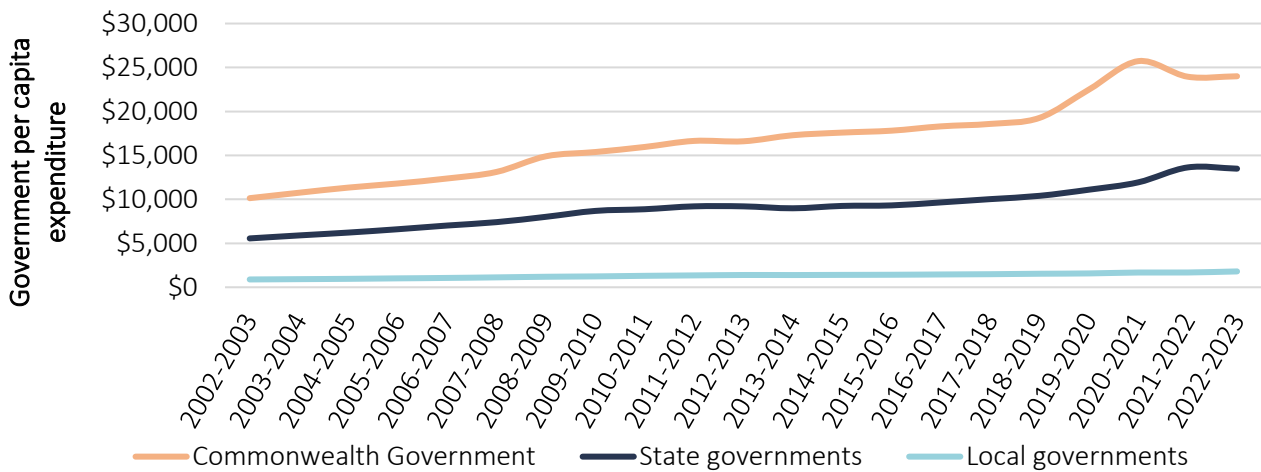
- Financial assistance grants as a share of total Commonwealth expenses have halved from around 0.8 per cent to 0.4 per cent between 2000-01 and 2022-23. This is shown in the middle figure to the right.
- The value of tied funding grants from the Commonwealth to state and local governments² increased from around \$80 billion in 2013 to nearly \$140 billion in 2023. This imposes limitations on how local councils, including capital cities, spend money and impedes their ability to respond to community and business needs. This is shown in the bottom figure to the right.

Due in large part to the above points, more than half of Australian councils are not raising enough revenue from their own sources to meet operating costs, and nearly half cannot renew assets.

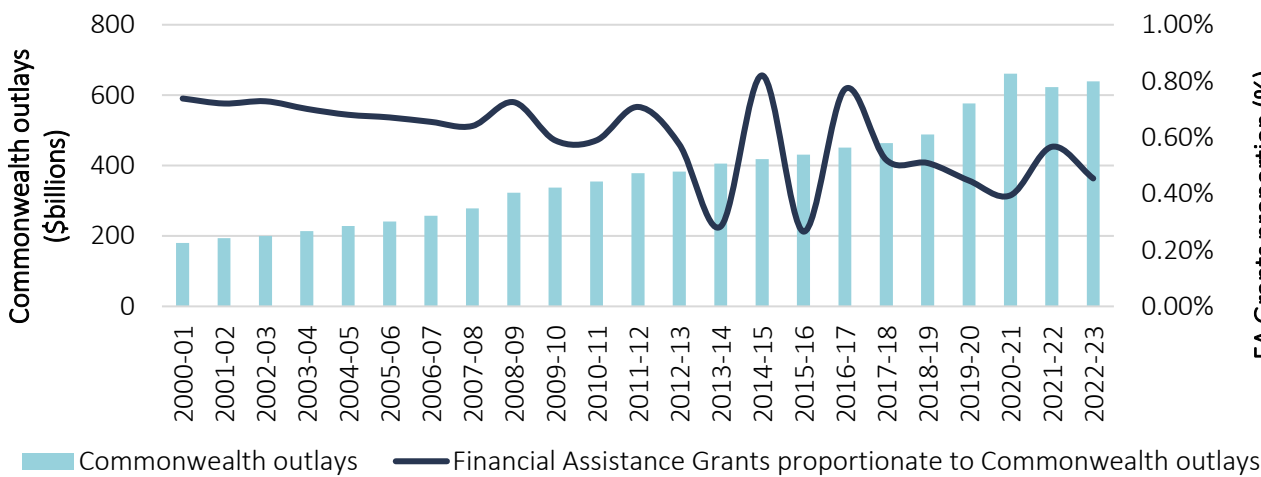
Our capital city local governments face similar resourcing challenges. If these trends continue, the critical role that our capital cities play within our national economy may be compromised, leading to productive losses that would ripple throughout our national economy. Such an outcome is not unfeasible, particularly when considering that similar financial challenges have led to six English councils announcing bankruptcy since 2020³.

Towards a solution

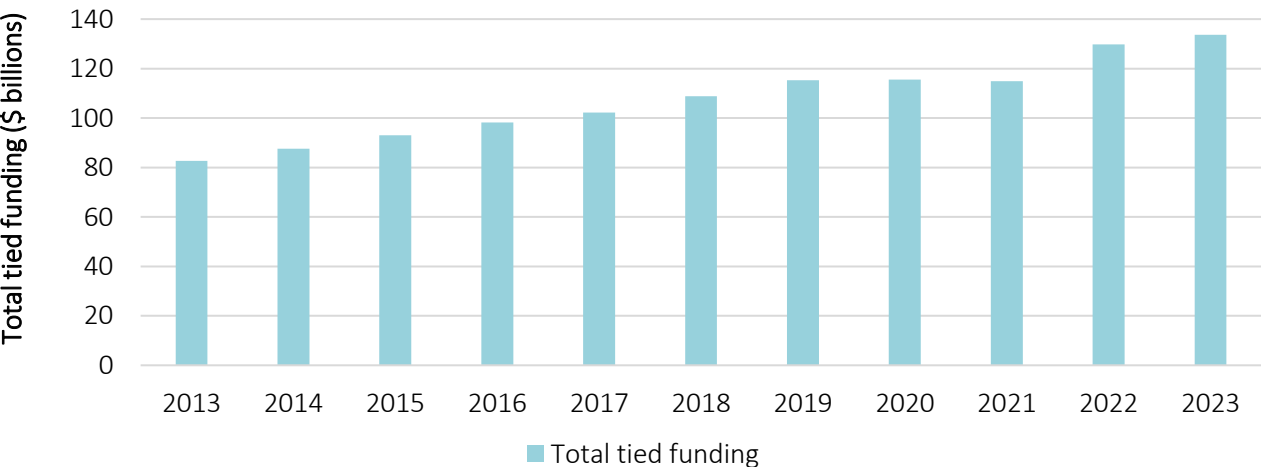
There is a clear case for greater financial support of capital city local governments as they have stewardship of nationally significant cultural and economic assets. In other words, these Councils generate benefits for all Australians, as well as local constituents. Such support may take the form of adjusting the distribution of government spending to provide local governments with a greater share, and/or greater Commonwealth and state government investment in infrastructure and services that have historically been overseen by local governments.



Source: Australian Bureau of Statistics data, compiled and illustrated by SGS



Source: DITRDCA data, compiled and illustrated by SGS



Source: Australian Bureau of Statistics data, compiled and illustrated by SGS. Amounts are GST exclusive. Amounts are calculated from Commonwealth grant expenses to other tiers of government, less the financial assistance grant amount for each year

1. SGS, Long term trends in Australian local government financial sustainability, 2024
2. It is not possible to disaggregate the state and local government amounts based on publicly available information
3. The Conversation, Four reforms to stop English councils from going bankrupt

Five critical roles of Australia's
capital city centres

FIVE CRITICAL ROLES OF AUSTRALIA’S CAPITAL CITY CENTRES

This part of the report provides an overview and evidence of the five critical roles that our capital cities play in the national economy.

- 1

Knowledge generation

Our capital cities host the greatest concentration of leading universities, research institutes, patent registering businesses, technology-based startups and other functions that underpin the generation and dissemination of knowledge across our economy. In this way the capital cities represent a pillar of the national innovation system.
- 2

Supporting productivity across the economy through provision of advanced business services (ABS)

The capital cities host the greatest concentration of specialised businesses services such as IT, legal, design, finance, engineering, strategic planning, and other services which client firms across Australia need to remain competitive.
- 3

Generating exports directly and indirectly

The central cities generate substantial direct exports in education and cultural tourism. They are also essential to the competitiveness of Australia’s major exporters in mining, agriculture and other sectors through the provision of advanced business services.
- 4

Leveraging Australia’s skills

As the most accessible parts of the biggest labour markets in the country, central cities can leverage broad and deep pools of skills enabling local firms to generate substantial productivity gains.
- 5

Command and control

Australia’s central cities typically host the headquarters of major public and private enterprises. Boardrooms and executive offices in the central cities determine the strategic direction of Australian corporations and, by extension, the economy.

01

Knowledge
generation

CRITICAL ROLE 1. KNOWLEDGE GENERATION

Knowledge generation is inherently complex, with individuals, businesses and public entities contributing to it by pushing the boundaries of research and innovation across a diverse range of sectors.

The success of research and innovation activities, along with the financial and economic benefits which stem from them, rely on the right people meeting, interacting and collaborating.

This is where our central cities provide a competitive advantage not offered anywhere else in Australia. They host the greatest concentration of leading universities, research institutes, patent registering businesses and technology-based startups, and are the places where our nation's innovators are most likely to meet formally and informally and spark ideas.

In other words, the central cities host the richest innovation ecologies in the nation.

Facilitating collaboration to accelerate knowledge generation and innovation is important. CSIRO modelling found that on average \$1 invested in innovation-centric activities returns economy-wide benefits of between \$3.50 (in the most conservative scenario) and \$20.80 (in the most optimistic scenario).¹ While this is promising, CSIRO also report that Australian business spending on research and development (R&D) as a share of GDP is just half of the OECD average and the lowest it has been since 2003. This points to a level of conservatism in Australian businesses and/or a competitive disadvantage in funding innovation activities.

Government intervention could encourage Australian business spending on R&D to lift to levels in line with the OECD average. Australia's central cities are a logical place to direct such funding, as they provide a setting for the expansion of firms and creation of new firms because they bring together private and public entities across sectors and disciplines to co-invent and co-produce.

Katz & Wagner¹ define nine domains of successful innovation districts (listed to the right), many of which are evident in our central cities. Government intervention to improve Australia's capital city centres across these domains would boost commercially valuable knowledge generation in our cities, delivering nuanced and far-reaching benefits for our national economy.

1. **Quality of place** – providing the urban amenities and 'the buzz' that attracts knowledge workers and provides the opportunity to create experiences, encourage formal and informal interaction.
2. **Foster diversity and inclusion** – creating opportunities for broad participation and minimising social disparity, they provide the opportunity for culture and cultural expression and are the place new migrants begin their new lives.
3. **Provide affordable spaces** – cities can offer access to a diversity of premises enabling businesses of different size and scale to locate centrally, accessing the broader benefits of the city.
4. **Provide a critical mass** – cities inherently have a density of assets, such as housing, employment, cultural and leisure activities etc. that enable them to attract and retain high-skilled workers , and to stimulate a diversity of activities.
5. **Access to infrastructure** – the ability to access transport, information and communications technology, utilities etc. to accommodated the critical mass and to support connectivity, collaboration and innovation.
6. **Accessibility** – the transport network and active transport connections connects the population of the city and surrounding suburbs to employment opportunities.
7. **Anchor institutions** – bringing together institutions and large corporates to create the enabling environment for collaboration and knowledge sharing, accessing the benefits of cluster economies.
8. **Competitive advantage** – cities are able to leverage their distinctive assets and locational advantages to attract and grow businesses.
9. **Collaboration** – lastly, these factors ensure that cities can 'connect the dots' between people, institutions, clusters and place, it creates the environments to create innovative companies that identify synergies and continue to grow and evolve.

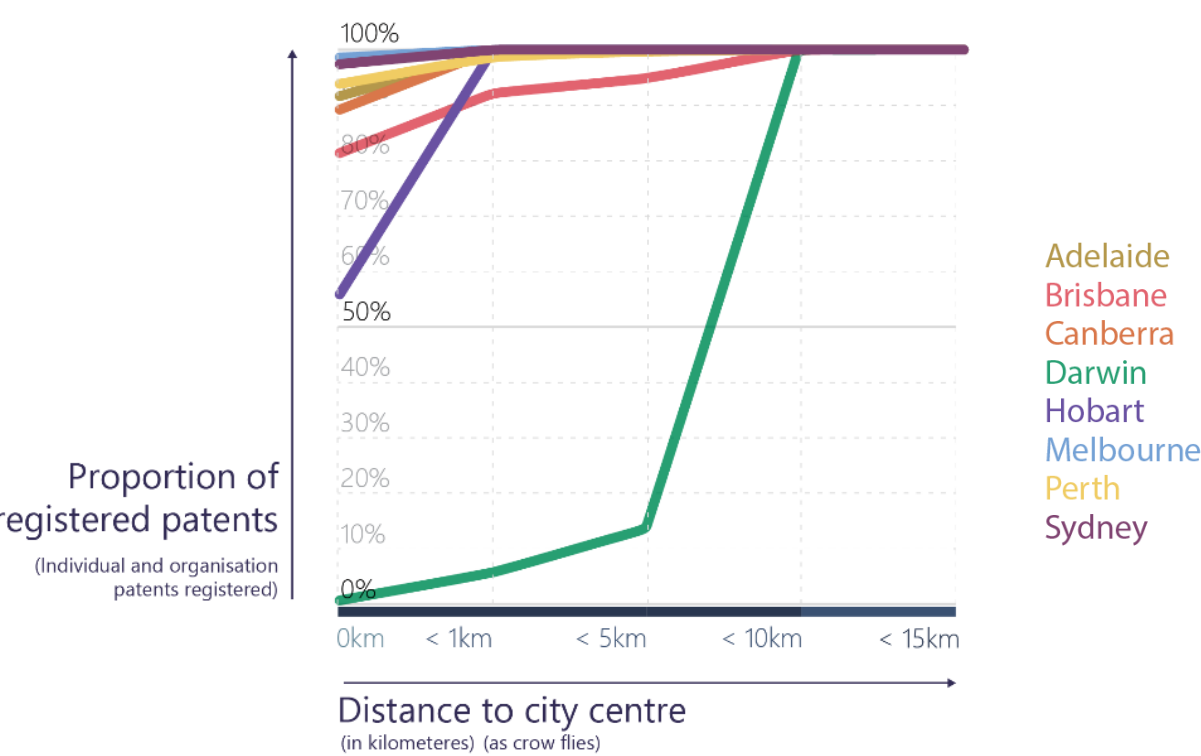
1. Katz, B. & Wagner, J. (2014) The Rise of Innovation Districts: A New Geography of Innovation in America

CRITICAL ROLE 1. KNOWLEDGE GENERATION

The geography of patent registrations highlights the vital importance of the central cities in knowledge generation. Intellectual Property Government Open Data (IPGOD) provides over 100 years of information from IP Australia on IP rights applications. The data, visualised in the figure below, shows that a staggering 99 per cent of patent registering individuals and organisations list an address within 10 kilometres of Australia’s capital city centres. The trend is most stark for our largest cities (Sydney and Melbourne) but is evident across all capitals except Darwin.

It is possible that the data is skewed by businesses and individuals using head offices or post boxes within city centres. However, even if this is the case, it illustrates that patent registering entities seek some level of presence within Australia’s capital city centres.

Location of patent registrations relative to city centres



Source: SGS Economics & Planning

Looking beyond patent registering entities, Australia’s Group of Eight (Go8) universities are Australia’s most research-intensive universities that ‘lead excellence and lead debate’¹. The Go8 benefit from being centrally located. This enables the universities to both attract the brightest people and facilitate their interaction with the various players in the innovation ecosystem.

Notably, of the eight universities – comprising the University of Melbourne, the Australian National University, the University of Sydney, the University of Queensland, the University of Western Australia, the University of Adelaide, Monash University and UNSW Sydney – **six are located within a few kilometres of the city centre**. The exceptions are UNSW Sydney which is around 6 kilometres from the Sydney CBD, and Monash University which is around 20 kilometres from the Melbourne CBD.

Universities, and particularly the Go8 universities, are hives of innovation. The ‘Melbourne Connect’ building, pictured below, was developed by the University of Melbourne in partnership with a consortium led by Lendlease. Melbourne Connect opened in early 2021, to foster connections between leading organisations and interdisciplinary institutions aimed at leveraging research and emerging technologies to address global challenges.

Melbourne Connect is strategically positioned in the Melbourne Innovation District City North precinct (MID City North), which is a partnership between the City of Melbourne, the University of Melbourne and RMIT University. The vision of MID City North is to:

“Develop a world-class urban district that supports and develops next-generation Melbourne – a place designed to leverage emerging technologies and innovation, and build on our city’s unique characteristics to enhance education and economic outcomes, create new knowledge and city experiences, and enrich inclusion and public amenity”

The partnership between the City of Melbourne and two of Melbourne’s leading universities to deliver on this vision demonstrates clearly the role that universities can play in defining and facilitating innovation districts which advance our national economies. Investment to support universities and other knowledge generation institutions (including indirect support by improving transport connections and the public realm near universities) will be crucial for such initiatives to continue and expand into the future, including in cities such as Sydney, Melbourne and Brisbane.



1. Go8 website, accessed 2024

Image source: Melbourne Connect website, accessed 2024

02

Supporting productivity
across the economy

CRITICAL ROLE 2. SUPPORTING PRODUCTIVITY ACROSS THE ECONOMY

Advanced business services (ABS) comprise firms in the information technology, legal, specialised training, design, finance, engineering, strategic advice and other technical sectors. They are drawn to capital city centres because these locations give them the best access to the specialised skills they need as well as the best opportunity to interact with similar and complementary businesses for mutual benefit.

Australia's capital city centres are where employment density – measured by effective job density (EJD) - is highest. Employment density has been empirically linked with productivity per worker. In particular, a doubling of knowledge-based EJD (which in effect means a doubling in the number of ABS jobs within a region) is associated with a **15 per cent increase in productivity per worker** in that sector.

ABS are critical to the functioning of our economy. For instance:

- They drive innovation and develop technology and new products which support government and the private sector to undertake their work. For example, advancements in communications technology (smart phones, the internet and wireless technology), which are vital to the success of businesses the world over have relied on ABS firms working collaboratively in our central cities and in other innovation precincts
- They provide expert advice on strategy as well as strategy implementation functions. ABS firms help their customers across all sectors to optimise their performance, grow and enter new markets. They assist through strategy development and knowledge intensive niche functions such as company branding and marketing new products
- They support efficient and compliant operations. For example, ABS provide analytical insights and legal support which enables businesses to make informed decisions in complex environments with competing demands on management
- They bring individuals and businesses together for mutual benefit. Notably, ABS serve a broad customer base and can be pivotal in connecting the right people or firms to collaborate and innovate. They carry innovative ideas from client to client
- They invest heavily in human capital. Human capital is the set of knowledge, skills and characteristics that make someone valuable to their workplace and to the broader economy. ABS firms prioritise advancement of human capital for their own workforce via the provision of education, training and skills development, however, the benefits spill over to broader economic gains
- They engage in formal and informal collaborative networks with government, industry and academia. Of note, ABS firms typically play a dominant role in the commercialisation of innovative products and services.

Creation of higher amenity and better-connected CBD areas, while also pursuing initiatives to secure provision of affordable office rents, would boost the number and functionality of ABS firms which are attracted to our central cities. This would directly and indirectly enhance their positive role in Australia's broader quest for continuous productivity improvement.

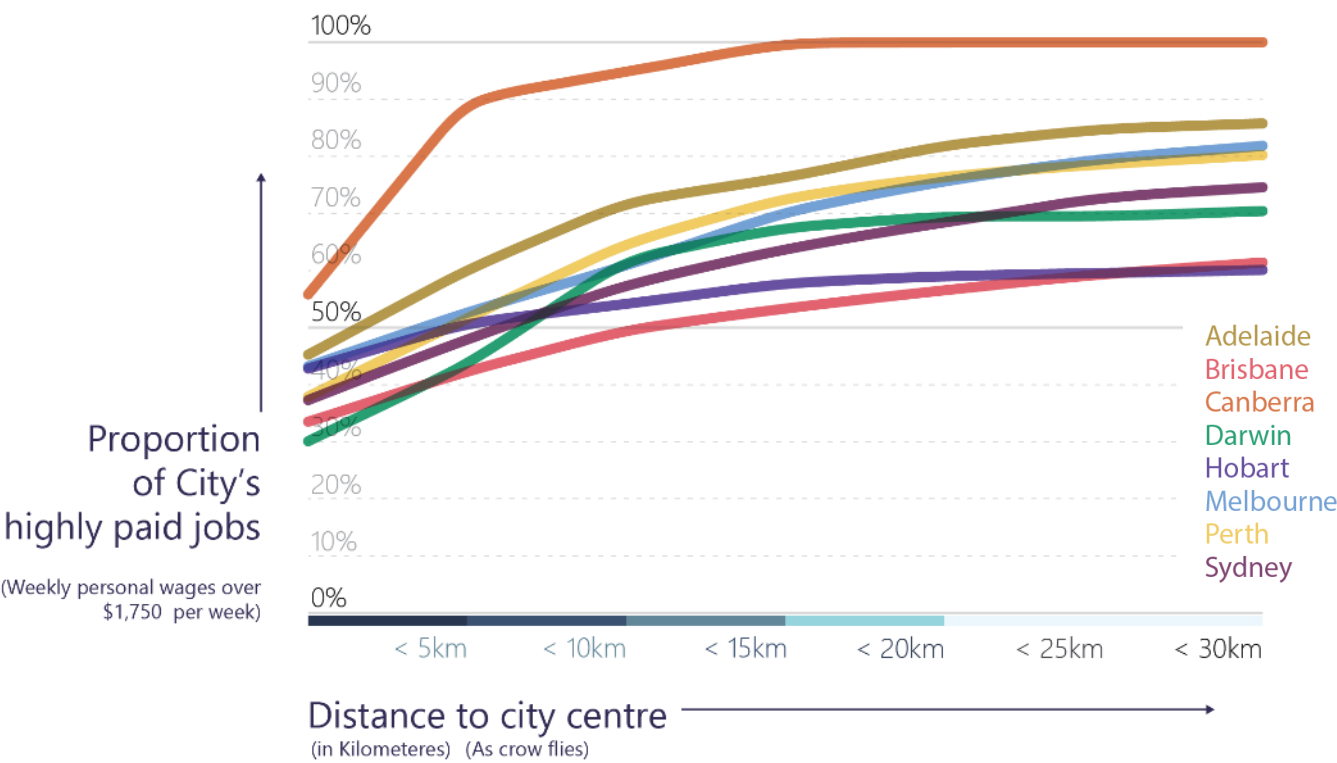
CRITICAL ROLE 2. SUPPORTING PRODUCTIVITY ACROSS THE ECONOMY

The extent to which ABS firms cluster within our capital cities is highlighted below.

The left figure illustrates the clustering of specialised ABS jobs in the capital cities of each state and territory, using higher paid jobs within ABS sectors as a proxy for productivity. It suggests that for most states and territories, around 50 per cent of specialised ABS jobs are within 5 kilometres of the capital city centre.

The figure to the right shows the same data spatially for Sydney. From this, we can see that of the specialised ABS jobs within 5 kilometres of the city centre, a large share are right in the heart of the CBD. A similar story plays out across Australia’s largest capital cities.

Location of knowledge intensive jobs relative to city centres



Source: SGS Economics & Planning

Location of knowledge intensive jobs in Sydney



Source: SGS Economics & Planning

03

Generating exports
directly and indirectly

CRITICAL ROLE 3. GENERATING EXPORTS DIRECTLY AND INDIRECTLY

Australia’s capital city centres support Australia’s exports directly and indirectly. The direct export role includes tourism and education (i.e. the spend of international tourists and students in our cities), while the indirect export role reflects how ABS firms in our city centres provide crucial support to Australia’s export sectors.

Direct exports

Tourism and education both contribute significantly to Australia’s economy. According to the ABS, the contribution of tourism to Australia’s GDP is around \$63 billion each year. Of the more than 7 million international tourists that come to Australia annually, over 50 per cent engage with culture, arts, and heritage during their stay. This includes visiting heritage buildings, art galleries and museums, as well as attending sporting events, festivals and other events. **Much of this cultural tourism offer is anchored by flagship attractions in the central cities.**

A core differentiator of Australia’s capital city centres compared to other urban environments is the entertainment and leisure offerings associated with their night-time economies (NTEs). Of note, research commissioned by CCCLM’s found that that 1.1 million Australians were employed to support the NTE in 2023. While many of these jobs service visitors to our cities, including international students, they also provide important social, recreational and entertainment opportunities for city residents.

Six of Australia’s capital cities feature in the top 50 ‘best student cities’, with Melbourne, Sydney, Brisbane, Adelaide, Canberra and Perth currently ranking 5th, 6th, 25th, 28th 29th and 35th respectively¹.

Seven Melbourne universities feature in the top global rankings, with the University of Melbourne – located in the central city region – coming in 13th in the world. Five Sydney universities also feature in the top global rankings, with the University of Sydney – also located centrally – coming in at 18th.

Having six of the top 50 best student cities in Australia is an exceptional standing. The benefit of this reputation and outcome is significant – according to the Commonwealth Government, international education exports amounted to around \$48 billion across Australia 2023. The majority of institutions earning this export revenue are located in the central areas of our cities.

The benefits of attracting internal students to Australian universities extend far beyond their direct export revenue measured in fees. Other important benefits include:

- Broader spend of international university students on things such as accommodation, retail, hospitality and leisure activities
- Universities developing strong and lasting international alumni networks, which support Australia’s international connectedness, global research development, trade and business links.



Students, tourists and Australian residents are attracted to Australia’s cities for their multicultural diversity, good transport links, food and café culture and overall quality of life. No where else in Australia are such a diverse mix of entertainment and cultural offerings available. Affordable rental and short-stay options are also crucial for attracting international students and tourists. Initiatives to support the comparative strengths of Australian cities as entertainment, tourism and education hubs will be important to protect and grow the significant direct export function of Australia’s capital city centres.

1. QS top universities for 2025

CRITICAL ROLE 3. GENERATING EXPORTS DIRECTLY AND INDIRECTLY

Indirect exports

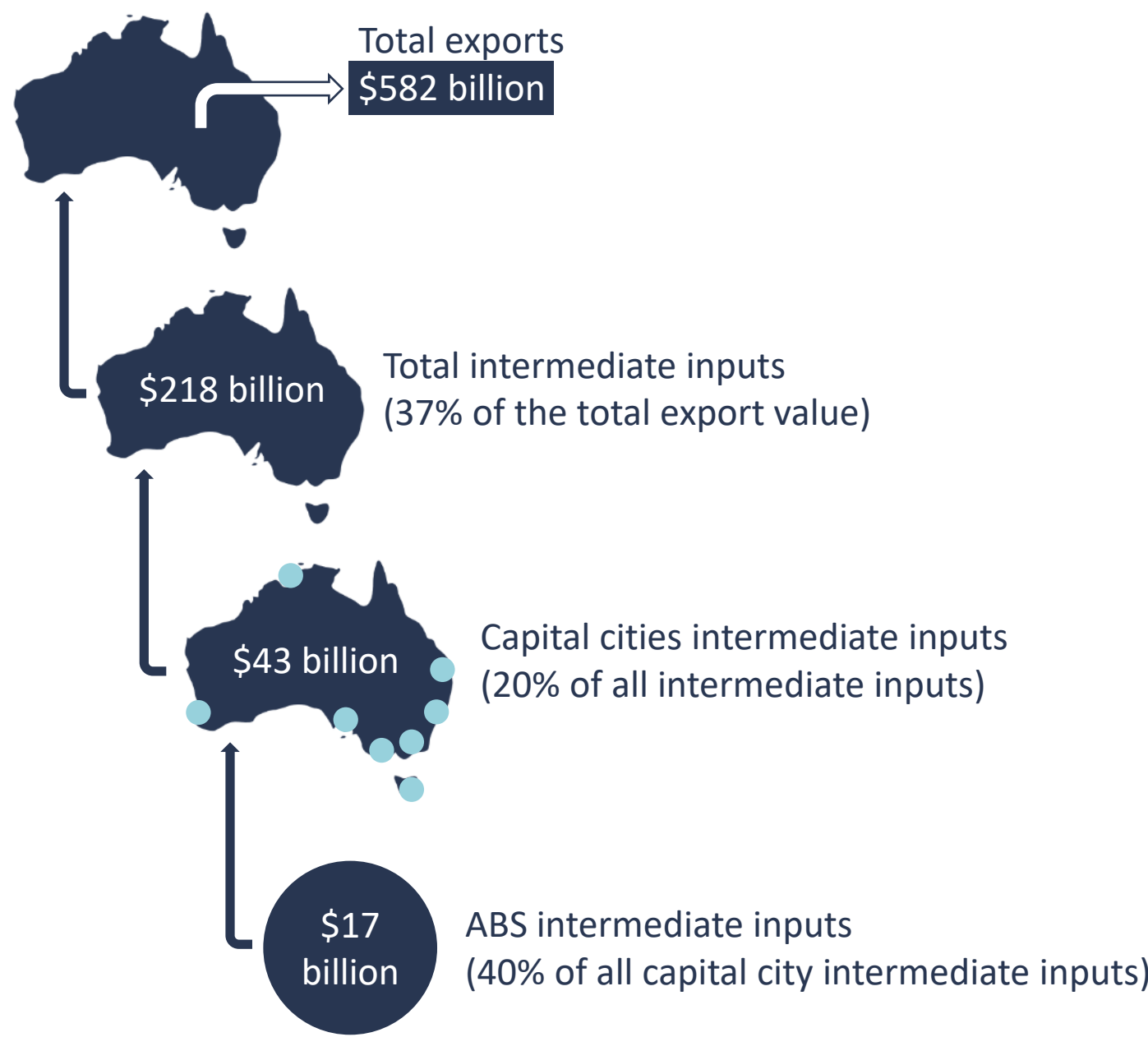
Business service firms in Australia’s capital cities play a crucial role in the success of Australia’s key export industries. According to the Australian Bureau of Statistics, Australia exports around \$582 billion of goods and services annually¹. The largest export sectors are resource related and include:

- Iron ore mining: \$127 billion
- Coal mining: \$110 billion
- Oil and gas extraction: \$84 billion
- Non-ferrous metal ore mining and non-ferrous metal manufacturing: \$68 billion
- Sheep, grains, beef and dairy cattle: \$20 billion

The core functions of these sectors occurs in rural and remote areas; i.e. at mine sites or on farms. However, the activities of firms in these sectors rely on supply chains that loop through Australia’s capital cities, especially with respect to engineering, technology, finance, legal and various brokerage services.

The figure to the right shows that intermediate inputs to Australia’s exports total around \$218 billion. Much of this comprises goods and services not tied to our central cities; for example, petroleum, construction services and transport services are key intermediate inputs to Australia’s exports. However, our capital cities provide \$43 billion of intermediate inputs to Australia’s exports, which equates to around 20 per cent of all intermediate inputs to Australia’s exports. Of the \$43 billion, \$17 billion is associated with intermediate outputs from ABS sectors, for which our central cities are crucial as described under critical role #2. Of the ABS intermediate inputs, 83 per cent are associated with Sydney, Melbourne and Brisbane.

Intermediate inputs to Australia’s exports



Source: SGS Economics & Planning, 2024

1. ABS Input-Output table (2021-22)

04

Leveraging
Australia's skills

CRITICAL ROLE 4. LEVERAGING AUSTRALIA’S SKILLS

Labour markets are most efficient when human capital can be effectively matched to the highest skilled job opportunities. An inefficient labour market is the opposite, whereby human capital is not productively utilised, detracting from productivity and GDP.

As the most accessible parts of the biggest labour markets in the country, central cities can leverage broad and deep pools of skills, enabling local firms to generate substantial productivity gains. How this leverage is exercised impacts national productivity.

The central cities provide unparalleled access to specialised skills. These skills are the vital ingredient in high productivity / high value added economies the world over. Firms engaged in innovation, either as a primary focus of their business or in retailing advice to client companies, must have access to skills which tightly match their specialised requirements. If these firms are located at the centre of a broad and deep pool of requisite skills they can cope with a degree of staff turnover. Indeed, this can boost their competitiveness as staff turnover can be an informal source of technology diffusion across sectors. However, these firms can struggle for competitiveness in regional and suburban environments where skills availability is less assured.

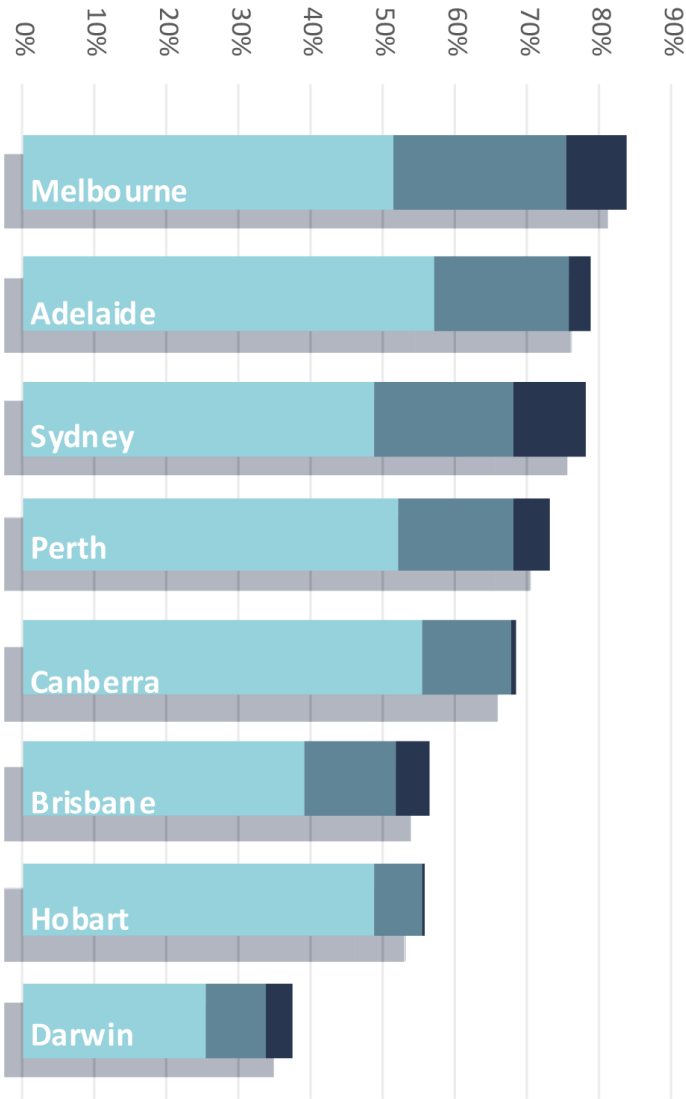
The chart to the right demonstrates the capture of skilled workers in each capital city CBD, with the skilled workforce modelled as employed persons earning more than \$1,750 per week. This analysis is based on the residential location of skilled workers relative to the central city they live in.

Across most capital cities, between 40 and 60 per cent of the skilled workforce live within a 15-minute commute of the CBD, while up to 80 per cent live within a 45-minute commute of the CBD. The benefit of central cities lies largely in their accessible nature – CBDs are well-served by public transportation, enabling workers to reach a wide range of employment opportunities relatively easily.

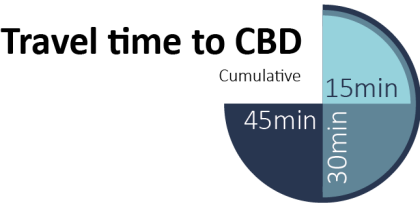
Location of skilled workforce relative to city centres

SKILLED WORKFORCE

(as % share of centre catchment)



Source: SGS Economics & Planning, 2024



CRITICAL ROLE 4. LEVERAGING AUSTRALIA’S SKILLS

Initiatives which maximise the size of the labour pool that can conveniently access the central city will best leverage the skills of Australia’s workforce. Broadly stated, such initiatives take two forms:

- 1. **Initiatives which increase accessibility** – this requires investment into public transport, road transport and active transport networks, as well as policy interventions to support greater use of bikes and micromobility devices
- 2. **Initiatives which increase residential urban density in inner and middle suburban areas** – this include increasing density in inner and middle suburban areas, particularly around mass transit stations (i.e. transit oriented design).

These initiatives increase the speed and convenience with which Australia’s skilled workforce (many of whom currently live in outer metropolitan or regional areas) can access jobs in our central cities. This would have productivity along with equity and social cohesion benefits.

The need for such interventions is evidenced in the table below, which compares jobs access for three successive generations of growth area communities in Melbourne.

Reducing relative accessibility of Melbourne’s growth areas

Greenfield suburb	Year	# of metropolitan jobs accessible within 30-minute drive (AM peak)	% of metropolitan jobs accessible within 30-minute drive (AM peak)
Lynbrook	1996	373,100	23.9%
Officer	2011	298,900	13.7%
Pakenham East	Current	133,200	4.8%

Source: SGS, Melbourne’s growth management opportunity, 2023

The example for metropolitan Melbourne presented in the table to the left highlights concerns as to whether outward suburban growth can continue to fulfill its historical role as an engine of inclusion and upward mobility. It also demonstrates foregone returns from the city’s stocks of human capital. Recognising this challenge, the Victorian Government invested in the Melbourne Metro project, which comprises twin nine-kilometre tunnels under Melbourne’s CBD and five new underground stations.

Melbourne Metro is an example of initiative #1, increasing accessibility, however, it indirectly also delivers on initiative #2.

When Melbourne Metro opens in 2025, **around half a million more passengers will be able to use Melbourne’s rail network every week during peak times.**

To put this into context, just over one million passengers currently use Melbourne’s CBD train stations each weekday during the AM and PM peak periods (i.e. this figure counts arrivals and departures from the CBD).

- Victoria’s Big Build website, and annual metropolitan train station entries data FY2023-24

While the Melbourne Metro project will boost the city’s livability and connectivity (thereby benefiting Victorian residents as well as businesses which rely on access to a diverse and deep labour pool), the challenge highlighted above will not be addressed in full, and further transport and densification initiatives would be advantageous to the productivity of Melbourne’s central city.

Similar interventions will be necessary in the capital cities across Australia.

05

Command
and control

CRITICAL ROLE 5. COMMAND AND CONTROL

Our central cities host the headquarters of major public and private enterprises.

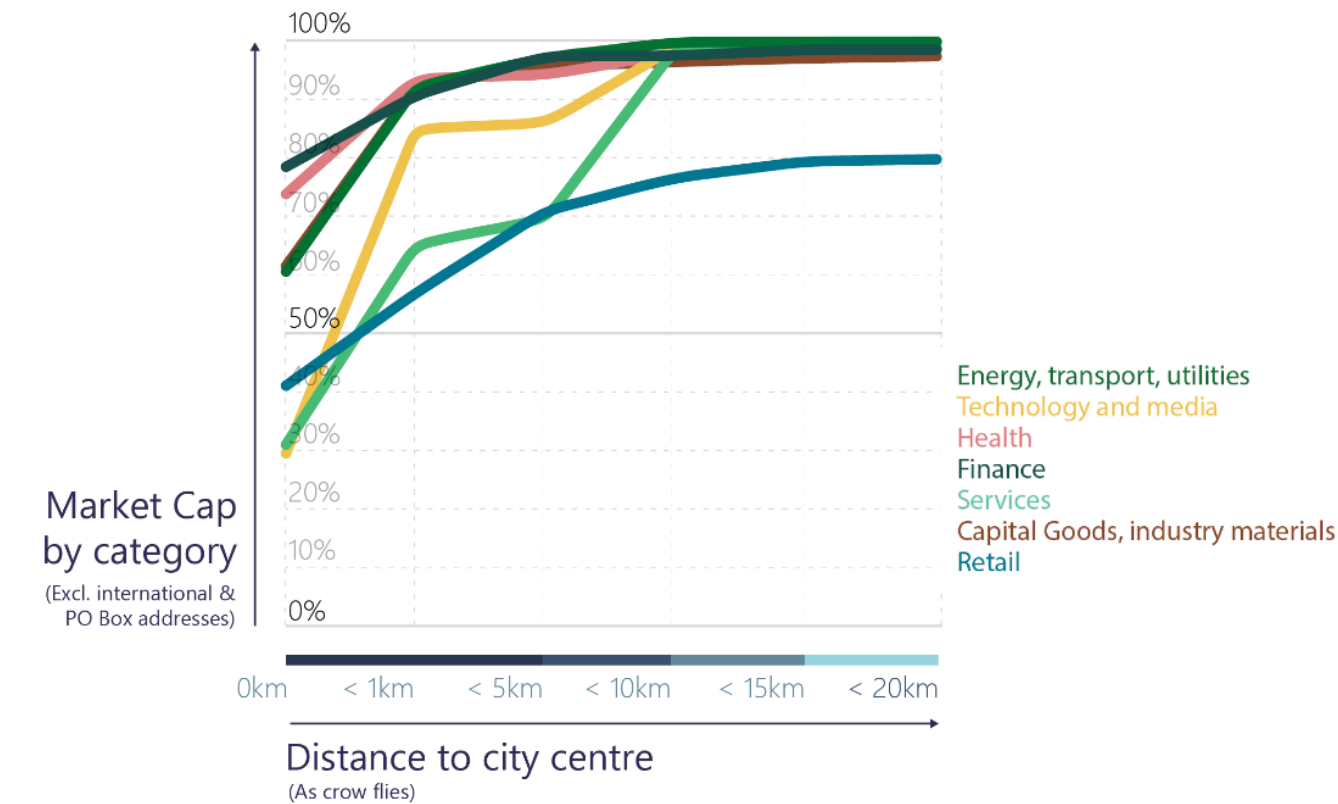
Key government functions are also typically concentrated in central cities. Like their private sector counterparts, this is partially because they need access to a deep pool of specialised skills, as discussed earlier. But these central locations also allow an unsurpassed opportunity for co-ordination across disparate departments and functions. Executives and policy makers can confer in person relatively quickly. Such in person transactions are vital in trust-based decision making, whether in commercial deal making or in public policy development.

Attracting more headquarters can strengthen local control and influence in important economic sectors through greater resource allocation and competitiveness.

A concentration of HQ functions is likely to give the host economy greater stability and growth potential because key decisions are made locally. The central cities provide the best prospects of curating this culture in Australia.

The figure below shows that 92 per cent of market cap is attributable to companies with registered addresses within 10km of a capital CBD

Location of Australian stock exchange listed firms relative to city centres (weighted using market capitalisation)



Source: SGS Economics & Planning, 2024



Brisbane



Perth

Opportunities to boost the economic
contribution of capital cities

ACTIONS TO BOOST THE ECONOMIC CONTRIBUTION OF CAPITAL CITIES

There are numerous ways in which governments at all levels can strengthen the critical roles of Australia’s central capital cities. This part of the report sets out some example initiatives and projects delivered by governments across the world. The interventions presented in this section of the report include:

- **Flagship public realm and iconic civic assets**, highlighting examples from Sydney and Singapore
- **Mass transit and active transport investment**, with references to Sydney’s recently completed metro project and cycling infrastructure investment in Paris
- **Linear green infrastructure**, with references to the New York High Line and Seoul's Cheonggyecheon restoration project
- **Congestion reducing initiatives**, with reference to congestion charging in London
- **Globally recognised events**, with two case studies from Australia – the Adelaide Fringe Festival and Melbourne’s positioning as a sporting capital
- **Promoting cities as places to live**, focusing on Postcode 3000 in Melbourne and housing affordability in Vienna

Commonwealth, state and local governments may draw inspiration from the above listed initiatives as they plan and deliver projects to boost the economic contribution of the central capital city areas.

The initiatives listed support the five critical roles described in the previous section to varying degrees, as summarised in the table to the right using a qualitative high, moderate, low scale.

Alignment between actions to boost economic contribution and the five critical roles of our central cities

Actions to boost economic contribution	1. Knowledge generation	2. Supporting productivity across the economy	3. Generating exports directly and indirectly	4. Leveraging Australia’s skills	5. Command and control
Flagship public realm and iconic civic assets	Moderate	Moderate	High	Low	High
Mass transit and active transport investment	High	High	High	High	High
Linear green infrastructure	High	High	Moderate	Moderate	Moderate
Congestion reducing initiatives	Moderate	Moderate	Moderate	Moderate	Moderate
Globally recognised events	Low	Low	High	Low	Low
Promoting cities as places to live	Moderate	Moderate	High	High	Low

FLAGSHIP PUBLIC REALM AND ICONIC CIVIC ASSETS

Flagship public realm and iconic civic assets are synonymous with the cities in which they are situated. Examples include Saint Peter’s Square in Vatican City, Gardens by the Bay in Singapore, the Eiffel Tower in Paris, Trafalgar Square in London, and the Sydney Opera House, among many others. These assets are anchors for cultural activity and entertainment, they instill civic pride, and they play a role in attracting multi-national corporations to a city. The Sydney Opera House and Gardens by the Bay are described below

Sydney Opera House, Sydney

Sydney is a beautiful city with its harbour, beaches, and heritage. The Royal Botanic Gardens, Sydney Opera House (SOH) and Sydney Harbour Bridge are all located adjacent to the CBD and add to its vibrancy and attractiveness. The SOH is a notable driver of economic activity in the cultural and tourism sectors.

While controversial at the time of construction, the SOH is now well-loved the world over and was declared a UNESCO World Heritage Site in 2007, with it recognised as “one of the indisputable masterpieces of human creativity, not only in the 20th Century but in the history of humankind.”¹

In 2023, Deloitte was commissioned to value the economic and social value of the SOH². Their analysis found that the Opera House precinct generated \$1.2 billion in value added for the Australian economy (\$824 million of which was from tourists visiting the Opera House precinct) and supported 8,000 full time equivalent (FTE) jobs. The SOH was also stated to be a significant contributor to the night time economy (NTE), including through events like Vivid Sydney which attracted millions of visitors to the harbour.

While flagship assets like the SOH and Gardens by the Bay are expensive to deliver, they can elevate the global identity of cities and serve to attract tourist and regional offices of multi-national firms. Flagship public realm and iconic civic assets generate exports directly and indirectly as per critical role #3, and they promote the command and control function described in critical role #5.



Sydney Opera House and the Sydney CBD

Gardens by the Bay, Singapore

Singapore has become a major centre for multinational corporations looking to expand across the Asia Pacific region. Singapore hosted regional headquarters for 4,200 multinational firms in 2023, extending its lead over Hong Kong, which has 1,336. Singapore benefits from its geographic location, political stability, innovation ecosystem and ease of doing business. This includes a strong legal system, well-qualified bilingual workforce, and a robust supporting infrastructure of banking and logistics services.

Singapore also benefits from its flagship public realm, including Gardens by the Bay. In January 2006, an international master plan design competition was launched to seek world-class design ideas for Gardens by the Bay. It drew entries submitted by 170 firms from over 24 countries. A public exhibition of the masterplans was held in late 2006 and, following feedback, the project broke ground in 2007. While delivered at a significant cost – around AUD 1.5 billion – the gardens generate significant benefits. Notably, they attracted nearly 100 million visitors in the first decade of operation and, while free to visit, Gardens by the Bay does also have some paid attractions which bring in sufficient revenue to cover annual operating costs.³

Gardens by the Bay has transformed the reputation of Singapore, as indicated by the following quote:

“The Gardens captures the essence of Singapore as the premier tropical Garden City with the perfect environment in which to live and work — making Singapore a leading global city of the 21st century.”
- Gardens by the Bay website



Gardens by the Bay, Singapore

1. NSW Government Cultural Infrastructure Plan 2025+
2. Deloitte, Valuing 50 years of Australia’s Icon, 2023

3. NSW Government Cultural Infrastructure Plan 2025

MASS TRANSIT AND ACTIVE TRANSPORT INVESTMENT

Faced with increased congestion and the associated impacts on air quality and livability, many cities are taking action to reclaim their cities, improving connectivity and amenity. Investing in public and active transport infrastructure can attract knowledge workers and spur economic development. Many workers, especially in the strategically important ABS sector, express a preference for walkable city centres with bike lanes, public transit and a mix of recreational amenities. Mass transit investment can also stimulate transit-oriented development and create compact, multi-modal neighbourhoods.

Sydney Metro, Sydney

Sydney’s Metro Project was designed to transform Sydney and deliver economic and social benefits for generations to come. The final business case for the project indicated that it would generate a benefit cost ratio (BCR) of 1.47. In simpler terms, each \$1 invested in the project would generate economic benefits of \$1.47. Project benefits presented in the business case comprised transport benefits and city building and wider economic benefits, as described below:

- **Transport benefit**, including providing a 60 per cent uplift in total rail network capacity (and a 70 per cent uplift in rail patronage in the AM peak), alleviating road network congestion across the Sydney Harbour and into the CBD, and providing customers with travel time savings of up to 21 minutes
- **City building and wider economic benefits**, including stimulation of around 45,000 additional jobs within the corridor by 2036, supporting an uplift in wages of between \$142 and \$322 (due to better connecting workers with jobs that more effectively utilise their skillsets), and providing between \$721 and \$1,761 in savings per annum for households through reduced cost of living.

Similar benefits are typical and achievable with any mass transit project delivered in Australia’s capital cities, with benefits scaling based on the level of investment and the local context.

Projects such as Sydney’s Metro Project shape a city’s fabric and provide a step change in the economic and social opportunities available to urban residents, particularly those in middle and outer parts of the city. Complementary active transport projects further support a mode shift away from private vehicles, enabling the use of roads in central cities to be reimaged for alternate purposes.

Mass transit and active transport investment supports all five of the critical roles of central capital cities described in this report. For instance, they support greater connections between ABS firms and research institutions (supporting critical roles #1, #2 and #3), they increase the size of the labour pool that can access central cities for work (critical role #4), and they consolidate CBDs as the strategically competitive place for central government and business headquarter functions to occur (critical role #5).

Cycling infrastructure, Paris

Paris’s commitment to the 15 Minute City was initially a response to poor air quality and liveability in the city. What started as a project to reclaim road space from private vehicles to promote walking and cycling, has grown into a citywide agenda for remodeling the city into a place where residents can more easily access local jobs, retail, health and cultural services within a short distance of their homes.

The City has banned traffic from the roads on both side of the Seine and cleared Place de la Nation and Place de Bastille from cars. Parts of the city are closed off to traffic for one Sunday each month. The City has increased parking fees for SUV drivers to decrease the size of cars in the capital. With urban heat a challenge for all cities, Paris has taken steps to increase trees and vegetation around the city, softening the hard urban form and adding shade.

These interventions elevate the amenity of Paris’ central city and make it a more attractive location for businesses to establish and residents to find work. Reducing vehicle traffic also frees up existing space designated for car parking, enabling more development in the city centre.

To deliver on the 15 Minute City vision, the City of Paris has progressively developed and delivered on the following cycling strategies:

- **Plan Velo 2015-2020.** This Plan had a budget of 150 million euros, and supported delivery of about 500 kilometers of bike lanes.
- **Plan Velo 2021-26.** This Plan aims to extend Paris’ standing as a fully cycle-friendly city, with new cycling routes and secure bicycle parking planned. The 2021-26 bicycle plan has a budget of over 250 million euros and plans to deliver over 300 kilometers of bike lanes. **The aim of the local service network is to enable every cyclist to travel on every street in the capital**, making it possible to travel by bike from end to end.

While a significant investment (400 euros for delivery of the two plans equates to around AUD 650 million), the impact has been transformative. Today, more Parisians now ride through the city centre than drive through it, and this is before full delivery of Plan Velo 2021-26. This initiative highlights the scale of change which can occur within a central city with sound planning and sufficient investment.

LINEAR GREEN INFRASTRUCTURE

Done well, linear green infrastructure can serve to promote efficient pedestrian movement in congested areas, provide high amenity green space for leisure and events, and attract residential and commercial development. This green infrastructure can generate significant economic benefits including higher levels of productivity. Two examples of linear green infrastructure are provided below – the High Line in New York and Cheonggyecheon in Seoul.

The High Line, New York

The High Line is a 2.3-kilometre-long park on a disused elevated train track which combines nature, art and design. At a cost of approximately AUD 370 million (at the time of construction), the project has revitalised the surrounding neighbourhoods and attracts around 7 million annually. The City, State and Federal governments covered around three quarters of construction costs, while the remaining one quarter was covered by private donations. Today, Friends of the high Line, a nonprofit organisation, oversees the public programming, public art, maintenance and operations for the High Line.

Developers have capitalised on the High Line’s popularity by building offices, apartments and stores nearby. A report published by the City of New York directly attributes 29 major residential and commercial developments to the High Line project and the new planning zone which accompanied it. All up, these 29 projects provided 3,000 dwellings (over one dwelling per metre of the High Line), 1,000 hotel rooms, and 40,000 square metres of commercial office space for around 2,000 office workers (nearly one worker per linear metre of the High Line).

While the New York High Line adds to the city’s cultural identity and attracts tourists from around the world, it has also served to reduce the urban heat island effect and increase biodiversity, act as a meeting place and a place of leisure for local residents, and connect workers across the business district.

The central initiatives from Government comprised partial funding of the High Line, dedication of public land and implementation of a new planning regime to support development adjacent to the High Line. An ex-post cost-benefit analysis (CBA) of the High Line found that benefit cost ratio of the project was 4.15. This means that for each \$1 spent on the project, economic benefits of \$4.15 were returned to the city. Adopting the cost of AUD 370 million above (which is under stating the cost given it does not include annual operating costs), the project has generated over AUD 1.5 billion in economic benefits for the city of New York.

Cheonggyecheon, Seoul

At a cost of around AUD 400 million (at the time of construction), the Cheonggyecheon project involved removal of a dual level freeway and restoration of 11 kilometres of the Cheonggyecheon stream, along with delivery of 22 pedestrian bridges across the stream (previously there were only three across the freeway), implementation of a new city-wide bus rapid transit system and construction of two new train stations in the Cheonggyecheon district. The project:

- Transformed the amenity of the central city region and made it an appealing place to live and work. Notably the project led to a significant uptick in development in the region – in the five years following the project, land use change in the Cheonggyecheon region was around 250 per cent higher than in comparable regions
- Led to a 200 per cent increase in pedestrian traffic in the region and supported intra-region accessibility.
- Led to a 15 per cent increase in bus ridership and a 3.5 per cent increase in train ridership across the whole city
- Provided flood protection for a 200-year flood event, increased biodiversity by over 600 per cent and reduced the urban heat island effect by more than three degrees Celsius.

The Cheonggyecheon project increased accessibility within and to the region and enhanced its amenity and generated numerous positive environmental externalities. These outcomes led to further transformation by developers who saw opportunities to construct residential and commercial projects which may have been financially unviable prior to the Cheonggyecheon restoration project.



Images: New York High Line (left two images) and Cheonggyecheon (right two images)

GLOBALLY RECOGNISED EVENTS

Our city centres are hot spots of heritage and cultural activity, night time events and broader leisure activities. They also host globally recognised events which drive tourism and add to the identity of our cities. Attracting a wide mix of events positions cities as ‘places to be and do business’ and consolidates their role as the cultural hubs of Australia.

Adelaide Fringe Festival, Adelaide

Adelaide Fringe is a world-renowned festival that celebrates culture, place and artists from across the globe. The South Australian Government describes the Fringe as follows:

“Adelaide Fringe is the biggest arts festival in the southern hemisphere that transforms the cultural fabric of South Australia for 31 magical summer days and nights throughout February and March. It is an award-winning global icon that values diversity and inclusivity, having won the inaugural award for Excellence in Accessible Tourism at the 2023 Australian Tourism Awards.”

Presenting Adelaide Fringe is a \$35 million activity each year, around nearly 15 per cent of which is provided by the State Government. The remainder is earned through partnerships, ticketing fees, registrations and other business activity. The festival generates around \$25 million in ticket sales, which is paid out directly to artists and venues. Beyond the entertainment, cultural and social value of the Adelaide Fringe Festival, the City benefits economically. In particular, the 2024 Adelaide Fringe Impact Report notes the following facts and figures:

- It attracted over 300,000 visitor nights in 2024
- The festival attracted over \$120 million in new money to South Australia in 2024, up six-fold from a decade earlier (it was just \$18 million in 2014). Much of this is likely to have gone to hospitality and accommodation providers
- It supports around 13,500 direct and indirect jobs. The direct jobs include those associated with the Fringe Festival and the businesses which receive the \$120 million of new money to South Australia, while the indirect jobs are in upstream industries (e.g. agricultural and food packaging sectors), as well as the spending of directly employed workers.

Melbourne’s sporting events, Melbourne

Melbourne is one of the sporting capitals of the world, and the central city hosts the following events¹:

- The Tennis Australian Open, which is reported to have contributed over \$3 billion in benefits to the Victorian economy over the previous decade
- The Spring Racing Carnival at Flemington Racecourse, which has been modelled to generate around \$400 million in benefits each year for Victoria
- The Formula 1 Grand Prix, delivering a total annual economic impact of around \$270 million in recent years
- The Boxing Day cricket test match, which provides around \$100 million to Victoria’s economy each year

Globally recognised events contribute to the livability and identity of our central cities. Interventions to attract new globally recognised events or to expand the reach of existing events can support broader growth of our creative and cultural economies, and generate increased demand for businesses in hospitality and accommodation sectors.



Images: Adelaide Fringe Festival (left two images) and Melbourne sporting events – the Australian Open and Formula 1 Grand Prix (right two images)

1. Various methods were used to model the benefits listed above. SGS has not validated the reported outputs.

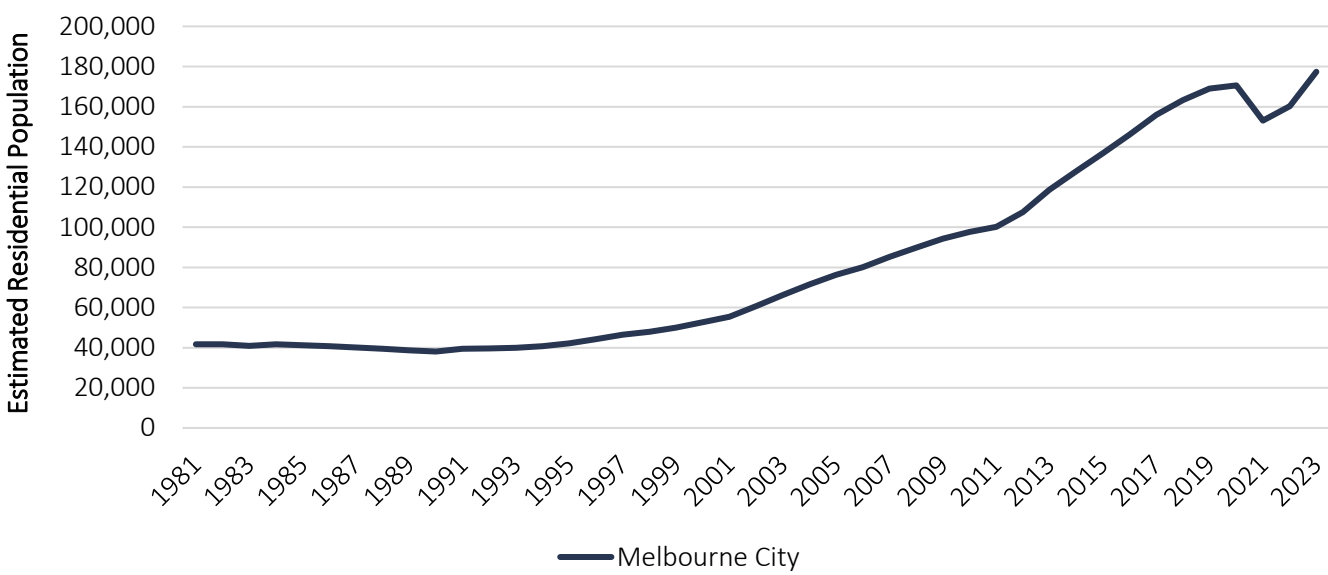
PROMOTING CITIES AS PLACES TO LIVE, NOT JUST WORK

A pure focus on developing CBDs as places for work and entertainment fails to recognise the importance of providing space for people to live. Zoning and other interventions to support residential density – particularly proximate to flagship public realm and civic assets, as well as along transport and linear green corridors – adds to the critical role played by our central cities. In particular, it increases the likelihood of knowledge workers interacting informally, and it extends the labour pool that can conveniently access central city employment.

Postcode 3000, Melbourne

Alongside its economic resurgence over the previous decades, the City of Melbourne also experienced renewed residential growth. This has come at a rapid rate, with dwelling growth far out exceeding any other established council in Greater Melbourne. Notably, the residential population of central Melbourne increased over four-fold from the early 90s to today, as shown in the figure below.

Residential population growth in Melbourne City



Source: SGS Economics & Planning, 2024. Note that this data is based on the Melbourne City SA3, which spans from Parkville in the north to South Yarra in the south, and from the Port of Melbourne in the west to East Melbourne in the east.

Today, Melbourne is internationally recognised as one of the world’s most liveable cities, with a vibrant, urbane downtown. There are many reasons for this dramatic turnaround but the return of residents is generally acknowledged as a major contributing factor.

The City of Melbourne’s ‘Postcode 3000’ initiative, in particular, marked the beginning of a reformed approach to planning for the inner city. The policy successfully revitalised the inner city and transformed it into a growing residential centre through incentives for residents and property developers such as discounted council rates and fees and a streamlined planning approval process. Vacant commercial buildings were converted to housing and new apartment towers were constructed, and this gradually spilled over into the neighbouring suburbs of Southbank, Carlton, and eventually Docklands.

Affordable housing, Vienna

Australia’s housing affordability crisis is well reported. Today, only 14 per cent of homes are affordable for median-income households¹. Generally, inner urban areas are the most unaffordable regions, and this has productivity impacts for our central cities in that it can limit the labour pool available to CBD based firms.

Vienna, Austria’s capital, has created a housing strategy that works for most of its citizens. 60 per cent of its nearly 2 million residents live in some form of social housing where they have access to low rents, secure tenure and quality accommodation. The strategy, enacted around one century ago, had a key ambition to provide better living conditions than what the private market was providing at the time. Following the second world war, a federal tax was implemented whereby Austrians pay around 1 per cent of their income for social housing. This is much like Australia’s Medicare levy, but with funds allocated to social housing infrastructure instead of health services.

There are income limits to access public housing in Vienna, but these are much higher than in other cities. Notably, the City of Vienna report:

“The relatively high income limits – 75 percent of the Viennese population earn less – provide, that the “middle class” also gets access to Vienna’s subsidized housing stock.”



Vienna’s Alterlaa social housing complex. Source: ABC news article, ‘Vienna has created an equitable and affordable housing market. Here’s how’

1. SBS, ‘Critical issue’: Record low housing affordability – and the Australians all but locked out, published September 2024

Canberra

P: +61 2 6257 4525

E: sgsact@sgsep.com.au

Hobart

P: +61 3 6264 3116

E: sgstas@sgsep.com.au

Melbourne

P: +61 3 8616 0331

E: sgsvic@sgsep.com.au

Sydney

P: +61 2 8307 0121

E: sgsnsw@sgsep.com.au

