Parliamentary Budget Office - Election Policy Costing

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Referred By:	Australian Labor Party	Proposal No:	A011
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Proposal Title: Move Liquor & Gaming NSW to Wollongong

Cluster: Industry

General Government Sector Impacts

	2018-19 $'000	2019-20 $'000	2020-21 $'000	2021-2022 $'000	Total 4-year $'000
Expenses (ex. depreciation)	206	4,212	1,451	1,138	7,008
Depreciation	-	181	66	66	313
Less: Offsets	-	517	1,017	969	2,503
Revenue	-	-	-	-	-
Net Operating Balance:	**(206)**	**(3,876)**	**(500)**	**(236)**	**(4,817)**
Capital Expenditure	-	3,990	-	-	3,990
Capital Offsets	-	-	3,217	-	3,217
Net Capital Expenditure:	**-**	**3,990**	**(3,217)**	**-**	773
Net Lending/(Borrowing):	**(206)**	**(7,685)**	**2,783**	**(170)**	**(5,277)**

Total State Sector Impacts

	2018-19 $'000	2019-20 $'000	2020-21 $'000	2021-2022 $'000	Total 4-year $'000
Net Lending/(Borrowing):	**(206)**	**(7,685)**	**2,783**	**(170)**	**(5,277)**

Notes and costing assumptions

The PBO estimates that the net lending impact of moving Liquor and Gaming NSW (LGNSW) to Wollongong is $5.3 million over the period 2018-19 to 2021-22. Most of the impact is driven by incentive payments ($2.0 million) and replacement costs for staff turnover arising from the relocation ($1.1 million) in 2019-20.

Number of employees

The move will involve relocating 163 of LGNSW's 271 Sydney CBD roles to Wollongong. The 163 roles represent non-operational staff who have been previously targeted to be moved to Parramatta.

The remaining 108 roles are assumed to remain in Sydney because they are operational/field based roles that perform compliance and regulatory activities in nearby casinos and in the hotel industry in Sydney.

Availability of new lease and backfilling existing lease

The costing assumes a suitable office lease is available to be procured by 1 July 2019, with fit-out to be completed by January 2020. It is assumed that a lease incentive with a rent-free period for fit-outs is included in the procured lease, as this is a common commercial leasing practice.

Notes and costing assumptions continued

For the existing lease and commitments, it is assumed Property NSW is able to find suitable tenant(s) to backfill LGNSW's vacated offices in Sydney (due to expire in 31 July 2021) as well as the new Parramatta offices (commencing July 2020) that were to accommodate LGNSW's 163 non-operational staff.

For the existing Sydney office, a sub-leasing arrangement is assumed to be implemented for the vacated space, at a cost of $200 per m^2. This represents the cost to LGNSW to find a tenant willing to pay the existing rent (approx $550 per m^2 including outgoings) till end of July 2021. This is a reasonable incentive payment or discount, given the uncertainty of finding a tenant to occupy the whole area for the short lease period (18 months).

In the event that a suitable tenant is not found to immediately backfill either sites, there will be additional costs because Liquor LGNSW are still required to meet their lease and rent obligations.

Size of the lease

Based on Property NSW's benchmark of 10 m^2 per full time equivalent (FTE) staff, the office space for new lease is assumed to be 1,630 m^2. This rate assumes that each of the 163 roles are full-time employees.

This is a high-level estimate and is subject to availability of offices, number of potential part-time employees and extent of activity-based working, which may increase/decrease the actual floor space and other costs to relocate to Wollongong. For example:

- Potential part-time employees would reduce the FTE figure and space needed e.g. if 20 of the 163 employees were 50% FTE, the benchmark is reduced to 1,530 m^2 or around 6% less than the assumed 1,630 m^2.
- The commercial office market in Wollongong may not be sufficiently flexible to supply a lease that is exactly 1,630 m^2, but close to it e.g. a single floor covering 1,650 m^2 or 8% more than the new benchmark of 1,530 m^2.
- Other Property NSW's Fitout Design Principles (November 2017) state that the benchmark for new fit out is 13 m^2 per person; however, Property NSW advised that the transition to activity-based working reduces the benchmark to 10m^2 per person. Therefore, reducing the extent of activity-based working at the new site would increase floor space requirements.

Also, any change to the size of the lease will affect other costs which rely on the lease size as the principal cost driver e.g. rent and fit out costs.

Rent costs and expenses

The gross rent (inclusive of outgoings and building expenses) is assumed to be $450 per m^2, based on a latest Wollongong office market report published by Knight Frank (a real estate business) in September 2018.

To account for indexation, an escalation factor of 3% has been used for 2019-20 and onwards. This rate is a rough estimate having regard to the current CPI, the higher vacancy rates in Wollongong and future supply of office space which will reduce pressure for higher rents. Knight Frank identified gross office space supplied in Wollongong was 3,400 m^2 in January 2018, and that additional new office supply of around 6,700 m^2 will be supplied in 2020. This rate is also consistent with the 3% escalation rate for LGNSW's existing accommodation at 323 Castlereagh Street.

Property NSW fees have been included in the costing, based on the latest price schedules set in 2017-18. In particular, annual fees for 2.1% of gross rent for facilities management and a one-off leasing fee of $20 per m^2 (plus indexation) have been included in the estimates.

In addition to office accommodation, the costing includes rent for two car spaces, which will be used for LGNSW's car pool. The cost rate is $2,000 per space per year, plus indexation, which Treasury considers reasonable.

Notes and costing assumptions continued

Staff turnover and replacement costs

The transition assumes some staff will leave the organisation in 2019-20 and that a relocation/incentive payment of $15,000 per staff will need to be incurred. The relocation incentive is based on a similar payment made to NSW Government staff relocated from Sydney to Gosford. It is also assumed:

- 20% of the staff will leave the organisation because of the relocation (in addition to normal turnover). The costing assumes LGNSW will be able to find replacements for the lost staff, but will incur additional transaction costs of $35,000 for each FTE (totalling $1.14 million)
- 80% of the staff will relocate to Wollongong offices and accept the relocation/incentive payment of $15,000 (totalling $2.0 million).

In the event the relocation/incentive payment is not implemented (or reduced), transaction costs to replace staff will increase and the relocation expense will decrease.

The costings also include additional staffing costs for the ongoing office management and support in Wollongong ($0.1 million per annum, plus indexation). This is based on the additional needs of the Wollongong office that LGNSW will now be required to support.

Change management costs

A one-off cost of $0.5 million has been apportioned over 2018-19 and 2019-20 (including indexation) to account for additional staff and external consultants to manage the transition from Sydney to Wollongong. This includes staff and union consultation activities, workplace declutter and facilities readiness assessments such as site orientation, induction, agile working transitioning, ergonomics assessments.

The cost estimate is based on the Department of Industry's assessment of the temporary staff and consultants required, which Treasury advised as reasonable.

Fit-out costs

Based on advice from Treasury about past relocation costings for NSW Government agencies, we have assumed the following cost rates (plus indexation) for planning, executing and implementing the relocation:
- removalist costs of $30 per m^2
- office fit out costs of $1,890 per m^2
- IT fit out costs of $275 per m^2
- make good provision of $200 per m^2

In the absence of a formal depreciation report, annual depreciation costs associated with fit outs is assumed to be $0.36 million. This estimate is based on a straight-line depreciation approach over 10 years and represents a high-level weighted estimate of the mix of assets, their varying effective lives (approx. 5 to 25 years, based on ATO schedules) and costs. As fit-out is assumed to be complete in January 2020, the depreciation costs have been apportioned by 50% for the year 2020-21.

These expenses also assume that the lease will be renewed at the end of the initial 5-year period. In the event the lease is not renewed, the assets will need to be fully depreciated in 2023-24.

Travel expenses

Travel expenses of around $0.3 million from January 2020 have been included to account for the net additional costs to travel to stakeholders for engagement purposes.

Notes and costing assumptions continued

The costing assumes that on average, 20% of the staff will be required to travel twice per week to stakeholder sites around Sydney, for 48 weeks per year. The rate applied is equivalent to the highest Opal return fare of $17.38, indexed by 2.5%. This is based on the agency's estimate of the potential travel needs for its staff who have a stakeholder-facing role, from the Wollongong train station.

In addition, the costing assumes a meal allowance of $31 per trip for lunch. This is based on the existing Crown Employees Award rate and is reasonable given the commute times from Wollongong station to Sydney, which is approximately 1:30 to 1:46 hours to Town Hall, or approximately 2 hours to Parramatta (or 3 to 4 hours in total).

However, to account for the incremental impact, the costing estimated and removed the existing travel-related costs from the Sydney CBD to stakeholders. As a high-level estimate, a return fare of $7.94 has been applied to the assumed travel needs. This return fare represents the midpoint of the 0-10 km and 10-20 km return fare.

Overall, the travel expenses represents a high-level estimate as some staff may incur a lesser expense than assumed because they could work flexibly or decide to commute home directly, rather than returning to the Wollongong office.

Information technology related costs

The costing also includes provision of internet and network links for the Wollongong site, totalling $45,600 per annum. This cost is based on the Department of Industry's estimate of engaging Telstra to provide coverage for the site. Offsets for this item at the existing Sydney office have not been included as LGNSW occupies a relatively small portion of a large office building occupied by other NSW Government tenants who use the existing network link.

Other offsetting savings

The costing includes offsetting savings associated with LGNSW's existing premises (till July 2021) and future Parramatta site (from July 2020).

For the 323 Castlereagh Street office, the savings comprises rent and outgoings for 1,818 m^2 and car spots, which represents the apportioned share of staff relocating to Wollongong. Property NSW fees of 2.1% of gross rent for facilities management have also been included. The rent savings are net of the sub-leasing revenue mentioned above.

From July 2020 onwards, it is assumed LGNSW would have been based at the new Parramatta Square site. To calculate the offsetting rent savings, it is assumed that:

- The new office comprises 1,300m^2, based on the Department of Industry's estimate of the floor space attributed to LGNSW. This figure is slightly less than the assumed 1,630m^2 size for Wollongong because it excludes shared facilities for operations/support, meeting and events space with other Government tenants.
- The estimated future rent of $702 per m^2 (inclusive of outgoings). This rate is based on Knight Frank's September 2018 estimate of "Prime" grade buildings in Parramatta ($649 per m^2) and escalated by the long term average growth rate of 4% per annum.

Property NSW fees of 2.1% of gross rent for facilities management have been included in the savings for both sites. For the Parramatta Square site, additional Property NSW fees for establishing a new lease ($20 per m^2 plus indexation) have been included as well.

In addition to rent-related expenses, avoided costs for fit-outs (including depreciation), relocation and make-good provisions have been included based on earlier assumptions. The estimated total capital cost for these items is $3.2 million in 2021-22 (including indexation).

Notes and costing assumptions continued

Alternative assumptions

The Department of Industry applied alternative assumptions to cost the relocation to Wollongong. The key differences between the Department of Industry's and the PBO's assumptions relate to:

- The occupancy rate and size of the lease, which directly influences rent and fit out costs (Industry assumed a larger space would be required)
- Capital offsets to account for the avoided fit out costs for its Parramatta office
- Staff turnover rates arising from the relocation to Wollongong (Industry considers these would be more likely to be 30% than the assumed 20%).

The PBO has consulted with NSW Treasury and reviewed the Department of Industry's assumptions, based on a judgement of the likely impact on the NSW State Budget.