Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By:	Australian Labor Party	Proposal No:	A033
Date Referred:	16/10/2018	Date Published:	18/03/2019

Proposal Title: Efficient government work space - accommodation consolidation

Cluster: Finance, Services and Innovation

General Government Sector Impacts

	2018-19 $'000	2019-20 $'000	2020-21 $'000	2021-2022 $'000	4 year Total $'000
Expenses (ex. depreciation)	-	(7,582)	(36,505)	(58,909)	(102,996)
Depreciation	-	-	-	-	-
Less: Offsets	-	-	-	-	-
Revenue	-	-	-	-	-
Net Operating Balance:	**-**	**7,582**	**36,505**	**58,909**	**102,996**
Capital Expenditure	-	-	-	-	-
Capital Offsets	-	-	-	-	-
Net Capital Expenditure:	**-**	**-**	**-**	**-**	**-**
Net Lending/(Borrowing):	**-**	**7,582**	**36,505**	**58,909**	**102,996**

Total State Sector Impacts

	2018-19 $'000	2019-20 $'000	2020-21 $'000	2021-2022 $'000	4 year Total $'000
Net Lending/(Borrowing):	**-**	**7,582**	**36,505**	**58,909**	**102,996**

Notes and costing assumptions

The proposal is to reduce accommodation space for NSW Government general government sector desk-based public servants by 10 per cent, excluding service delivery staff, desk-based staff in schools, hospitals, the NSW Police Force, NSW Ambulance and Fire & Rescue NSW. The implementation date is 1 July, 2019.

Current Activity Based Working (ABW) standards are 13m^2/FTE at a workpoint/FTE ratio of 0.8:1, which means in effect the average space is 10m^2/FTE. This costing provides for a 10% reduction on that effective ratio of 10m^2/FTE to bring it to 9m^2/FTE.

The key assumption is that the entire portfolio can move to ABW. This would need to be validated on an agency by agency basis to ensure service delivery needs are met and to assess any occupational health and safety risks.

The rent saving is estimated at $103 million over the period 2019-20 to 2021-22. The estimated cost is based on Property NSW's model and information about existing and future accommodation needs of NSW Government agencies.

Notes and costing assumptions continued:

10% space reduction	2018-19	2019-20	2020-21	2021-2022	4 year Total
	$'000	$'000	$'000	$'000	$'000
Activity Based Working - Savings		4,089	29,964	49,785	83,838
Further 10% space reduction		3,493	6,541	9,124	19,158
Total saving	-	**7,582**	**36,505**	**58,909**	**102,996**

Fit out and make good costs

The costing assumes that the relocation of agencies from time to time occurs irrespective of the introduction of this policy and that there may be some capacity to consolidate agencies and/or hand back excess space without the need to incur relocation costs. Consequently fit out, make good and relocation costs have been excluded from the costing.

Leasing assumptions

The lease expiry profile is based on the JLL RED system with adjustments for leases expiring up to and including 2018-19. For leases expiring up to and including 2018-19, it is assumed that the new lease expiry is the maximum of i) original lease expiry + 5 years or ii) 2019-20.

It is assumed that appropriate vacancies exist in the relevant markets to allow for a relocation to a new smaller tenancy.

Financial costs of the new lease

It is assumed that the new rent rate is the same as the current rent rate. The rent is assumed to be escalated by 2.5% per annum, which is broadly consistent with Treasury's advice. Existing leases will be retained for three months to allow sufficient time for agencies to relocate to the smaller tenancy and complete property related works (e.g. make good of existing premises).

Exclusions from the costing

Tenancies that are non-office based spaces, including industrial, car parking, laboratory, land, storage and the like have been excluded.

Owned sites are excluded as the Government would continue to be liable for ongoing utilities, maintenance and capital costs, irrespective of space savings.

Property NSW fees

Property NSW fees have not been included in the cost model. This is not unreasonable because the net impact is likely to be broadly neutral. Fees incurred and passed onto agencies are based on cost-reflective pricing principles and are likely to be offset, by avoided future costs.

Indexation of costs

Property NSW has applied an escalation rate of 2.5% in its model, as per its expected growth in property prices.