



Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By: Coalition
Date Referred: 15/02/2019

Proposal No: Y047
Date Published: 18/03/2019

Proposal Title: Western Sydney Startup Hub for Western Sydney Businesses

Cluster: Industry

General Government Sector Impacts

	2018-19 \$'000	2019-20 \$'000	2020-21 \$'000	2021-22 \$'000	4 year Total \$'000
Expenses (ex. depreciation)	-	546	801	820	2,167
Depreciation	-	-	430	430	860
Less: Offsets	-	4,846	871	876	6,593
Revenue	-	-	360	374	734
Net Operating Balance:	-	4,300	-	-	4,300

Capital Expenditure	-	4,300	-	-	4,300
Capital Offsets	-	-	-	-	-
Net Capital Expenditure:	-	4,300	-	-	4,300

Net Lending/(Borrowing):	-	-	430	430	860
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Total State Sector Impacts

Net Lending/(Borrowing):	-	-	430	430	860
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Notes and costing assumptions

The policy proposes to fit out an existing government building as a co-working startup hub. The hub would provide subsidised and affordable work spaces, and programs for businesses and startups in Western Sydney. The fit out is to start 1 January 2020, with operations starting 1 July 2020.

The policy specifies that:

- the size of the hub is to be at least 1,500 m² and is to be located around North Parramatta
- UrbanGrowth NSW (UGNSW) would meet the costs of building, fitout and maintenance for the site
- UGNSW would collect rental income from the hub
- Department of Industry (DOI) would meet the cost of administering the program, including ongoing staff expenses.

The estimated cost of the policy over the forward estimates is \$6.6 million, which would be absorbed by UGNSW and DOI. On a net lending basis, there is an improvement of \$0.9 million. This is because depreciation expenses are excluded from the net lending calculation.

The PBO considers the costs to be a lower-range estimate as it is based the minimum floor space of 1,500 m² specified by the policy. The choice of government building to house the hub and other site considerations would affect the floor space for the site which would lead to higher fitout and operational costs.

Notes and costing assumptions continued:

A summary of the costs and revenues for this policy is summarised in the table below.

(\$000s)	2018-19	2019-20	2020-21	2021-22	Total
UrbanGrowth NSW (UGNSW)					
Revenue			360	374	734
Subsidised workspaces			338	351	689
Venue hire			23	23	46
Recurrent expenses for the startup hub			671	676	1,347
Repairs and management			31	32	63
Insurance, maintenance and back office costs			77	79	156
Make-good			30	30	60
Depreciation			430	430	860
Communications and car park costs			103	105	208
Capital expenses		4,300			4,300
Demolition and construction		1,000			1,000
Fitout		3,300			3,300
Net impact absorbed by UGNSW		4,300	311	302	4,913
Department of Industry (DOI)					
Recurrent expenses for business programs		546	560	574	1,680
Employee costs		546	560	574	1,680
Net impact absorbed by DOI		546	560	574	1,680
Totals					
Total revenue			360	374	734
Total recurrent expenses		546	1,231	1,250	3,027
Total recurrent expenses excl. deprec.		546	801	820	2,167
Total capital expenses		4,300	-	-	4,300
Total offsets		4,846	871	876	6,593

Existing government-owned building around Parramatta North

The costing assumes that the startup would have a gross floor area of 1,500 m² and would be located within an existing government-owned building in the Parramatta North Growth Centre. This is based on advice from UGNSW that a startup hub could be accommodated amongst the heritage-listed buildings near NSW Health's existing facilities near Fleet Street, Parramatta (see yellow shaded area in the map in Appendix A).

The PBO assumes that UGNSW, DOI and relevant ministers will enter into an internal government agreement to dedicate a site rent-free for the startup hub within Parramatta North Growth Centre, for ten years. The PBO has selected ten years based on the typical lifespans of office leases. As part of the agreement, the PBO assumes that the relevant responsibilities would be agreed to by the parties, consistent with the policy about how the costs are to be absorbed. In addition, the PBO assumes that the development consent process for the startup hub are expedited and completed so works can start in January 2020.

Revenue from the startup hub

The costing estimates the subsidised rent revenue would be \$0.7 million over the forward estimates. This assumes that 90% of 1,500 m² will be fully leased from the beginning of July 2020. For the remaining 10%, DOI advised that the space will be reserved for common usage by the tenants.

For the rent, DOI estimated that the discount is equal to 50% of the net facing rent of \$500 per m², totalling around \$0.4 million per year. The PBO considers this rate is reasonable based on existing market forecasts for commercial property around Parramatta. In particular, Knight Frank's September 2018 report stated that the net rent is \$437 per m² for secondary/B-grade commercial office space and \$534 per m² for prime/A-grade commercial office space around Parramatta.

The costing has applied net rent rather than gross rent, because gross rent includes outgoings which the policy specifies are to be met from UrbanGrowth NSW resources. The discount rate of 50% represents the DOI's estimate of the appropriate subsidy for the hub's workspaces.

The costing also includes revenue of \$23,000 per year from venue hire activities for the startup hub. This is based on DOI's advice that the startup office can be used for functions. DOI estimated that the venue hire revenue generated would be around 3% of the annual market rent for the site.

Notes and costing assumptions continued:

The PBO has escalated the above revenue items by 4% per year, which is based on Knight Frank's estimate of the ten year average growth rate for Parramatta commercial rents.

Fit out costs

The cost of converting and fitting out the building is estimated to be \$4.3 million in 2019-20.

To convert the building into a startup hub, the costing includes \$1 million for demolition and construction works. This is based on the DOI's estimate of the internal and external works required for a heritage building with 1,500 m² floor space.

Fitout costs include \$3.3 million for office-related fixtures, furniture and information and communications technology (ICT) expenses. This is based on DOI's estimate of \$2,200 per m², which is broadly consistent with Property NSW's benchmark costs for office fit outs (\$1,890 per m²) and additional ICT fitouts (\$275 per m²).

Recurrent expenses for maintaining the startup hub

The costing includes \$1.3 million over the forward estimates for maintaining the startup hub.

Most of this cost (\$0.9 million) relate to depreciation expenses. The PBO has assumed that the works for converting and fitting out the startup will be depreciated over a ten year period, using a straight line profile (around \$0.4 million per year). This is a high-level estimate, consistent with various useful asset lives from similar ICT and office fitouts.

The costing also includes around \$0.2 million over the forward estimates for repairs, management, maintenance, insurance and residual back office costs. The costing also includes communications and car park lease expenses of \$0.2 million over the forward estimates. The costs are based on advice from DOI about the likely contents, needs and costs for the startup hub. The PBO has allocated these costs for 2020-21 and onwards, to reflect the July 2020 opening date for the startup hub.

For make good provisions, the costing includes \$0.1 million over the forward estimates. This reflects the amortised cost of make-good provisions to return the site to its condition prior to fitout. The rate is based on a provision of \$200 per m², totalling \$0.3 million. The PBO notes that this is consistent with Property NSW's benchmark for government offices. The PBO has amortised this amount over a ten year period, consistent with the duration of the startup hub in North Parramatta.

Recurrent expenses for business programs

The costing includes \$1.7 million over the forward estimates for employee-related costs to promote business-related programs and manage the subsidised rents. This includes on-costs and escalation of 2.5% per year, consistent with the NSW Public Sector Wages Policy.

These estimates are based on DOI's estimate of the likely project costs including:

- a Band 1 Director
- a Clerk Grade 11/12 employee and
- a Clerk Grade 7/8 employee.

The PBO has included costs for the whole 2019-20 year rather than after the July 2020 opening date for the hub. This is to account for project-management functions for the construction and fitouts and other activities to attract tenants for the startup hub.

Notes and costing assumptions continued:

Capacity for UrbanGrowth NSW and Department of Industry to absorb the costs

The policy specifies that:

- UrbanGrowth NSW will meet the cost of building, fitout and maintenance of the hub (\$4.9 million over the forward estimates)
- Department of Industry will meet the cost of administering the program, including ongoing staff for the site and business programs (\$1.7 million over the forward estimates).

The PBO considers it feasible for DOI and UGNSW to absorb and offset these costs. The PBO notes from the 2018-19 Budget that:

- UGNSW's budgeted operating result is \$24.3 million for 2018-19, with cash assets of around \$190 million
- the Industry Cluster's budgeted expenditure for skills and workforce programs is \$2.2 billion for 2018-19.

As UGNSW does not have any forecast capital expenditure, the PBO has assumed the costs will be absorbed from its recurrent expenditures.

Appendix A - Parramatta North Growth Precinct and surrounding area

