19/11/2007

Not relevant

109	MFI07/020	Cost Savings In Office Accommodation (**P**atrick Conlon) **APPROVED**

Not relevant

109

CABINET COVER SHEET

1.	**TITLE:**	**COST SAVINGS IN OFFICE ACCOMODATION**
2.	**MINISTER:**	**HON PATRICK CONLON MP** **MINISTER FOR INFRASTRUCTURE**
3.	**PURPOSE**	To adopt best practice principles and a long-term savings strategy that reduces office accommodation space consumption levels and delivers ongoing cost savings.
4.	**IDENTIFY THE RELEVANT GOVERNMENT POLICY AND/OR SA's STRATEGIC PLAN TARGET**	This proposal supports the following targets in South Australia's Strategic Plan. T1.9 Performance in the public sector – administrative efficiency: the strategy achieves reductions in accommodation costs. T3.7 Ecological footprint – reduce South Australia's ecological footprint by 30% by 2050. T3.13 Energy efficiency – government buildings: the strategy achieves reductions in overall space use and resulting reductions in energy use and environmental impact by Government.
5.	**ICT COMPONENT**	Does the submission have a material ICT Component? ☐ Yes ☒ No
6.	**RESOURCES REQUIRED FOR IMPLEMENTATION**	Individual agencies will be required to prepare detailed business cases as part of the budget process, to confirm the investment necessary to support implementation of the strategy in their agency. **Department of Treasury and Finance advises that there are no direct costs associated with this submission.**

7.	COMMUNITY AND ENVIRONMENTAL IMPACT	There are no direct impacts from this submission. Does the submission have an impact on business? ☒Yes ☐ No Department of Trade and Economic Development agrees with the basis of the assessment of the business compliance costs associated with this submission.
8.	RISKS	Failure to implement the strategy will result in continued over-expenditure on office accommodation and opportunities to achieve long-term savings will be missed. The shared services initiative may impact on the strategy. The implementation strategy is subject to individual agency business cases and may not realise the full scope of potential savings.
9.	CONSULTATION	Senior Management Council has considered and endorsed the 10-point Action Plan and proposed savings strategy.
10.	COMMUNICATION STRATEGY	No public communication is required. DTEI will engage directly with relevant agencies.
11.	URGENCY	Standard.
12.	RECOMMENDATIONS	It is recommended that Cabinet: 4.1 approves the adoption of the attached 10-point Action Plan to achieve recurrent savings in office accommodation costs; 4.2 approves the implementation of the savings strategy described in Section 3.4 that: • when leases expire or fitouts reach 15 years of age, agencies must, if economic, refit or relocate to accommodation that meets the mandatory government space usage standards and is priced consistent with prevailing market costs for the required standard; and • new fitouts must meet mandated environmental standards and be flexible to reduce churn costs.

12. RECOMMENDATIONS

4.3 approves that agencies that choose not to re-fit and/or choose to exceed the mandated standards will be required to provide the additional capital and/or have their recurrent funding reduced, unless considered by the Government Office Accommodation Committee and approved by Cabinet. A decision to reduce agency funding will require Cabinet approval;

4.4 notes that the proposed savings strategy requires investment and that DTEI will work with individual agencies to develop full business case submissions at lease expiry or renewal, for later consideration by the Government Office Accommodation Committee or Cabinet in the case of refits greater than $4 million;

4.5 notes that the quantum of potential savings will be subject to the impact of the proposed shared services initiative and any agency successfully arguing for special needs and a waiver of the mandated standards and/or a deferment of planned upgrades; and

4.6 notes that initial analysis indicated that the most cost effective option for government is to refit to government standards in existing CBD buildings. Relocation of major accommodation to regional centres in metropolitan Adelaide will require additional investment and will not generate additional savings.

I declare that I have no actual or potential conflict of interest in relation to the proposals contained in this submission.

PC

HON PATRICK CONLON MP
MINISTER FOR INFRASTRUCTURE

9 November 2007

MINUTES forming ENCLOSURE to **MFI 07/020 CS**

TO: PREMIER FOR CABINET

RE: COST SAVINGS IN OFFICE ACCOMMODATION

1. PROPOSAL

1.1 To seek Cabinet approval for the adoption of a savings strategy, incorporating a 10-point Action Plan to achieve mandatory office accommodation space standards, and to deliver sustainable long-term savings in government office accommodation costs.

2. BACKGROUND

2.1 The 2006-07 budget targeted operating savings in office accommodation costs that were to build to $5 million annually by 2009-10 ($2.5 million in 2007-08). The savings targets were to be held centrally by Department of Treasury and Finance (DTF) pending agreement to an approach to distribute across agencies.

2.2 Three possible savings plans to distribute the savings across agencies were presented to the Senior Management Council (**SMC**) earlier this year. Two savings plans were based on a proportionate allocation of the targeted budget savings to each agency. The first plan allocated larger parts of the savings to agencies with accommodation that does not meet government standards. The second plan simply allocated savings based on the agency's percentage of the total space occupied. While both plans met the target savings through budget cuts, **SMC** did not support either as they did not directly increase efficiency through refit to meet the standards and/or offer any means of achieving sustainable cost savings.

2.3 The across government office accommodation savings established in the 2006-07 budget were reversed in the 2007-08 budget in recognition of the lack of capacity to meet these short term savings targets.

2.4 The third savings plan, structured as a long-term 'invest to save' plan, was supported by **SMC** and is the subject of this submission.

2.5 The Department for Transport, Energy and Infrastructure (DTEI), in its central agency role concerning management of office accommodation for government agencies, conducted an analysis of each agency's major tenancies in the Adelaide central business district (**CBD**) to identify opportunities for office accommodation operating savings in accordance with the target.

2.6 Analysis was based on the mandatory government space standards for office accommodation which state that:

- the maximum average space consumption should be 15m²/person; and
- the number of enclosed offices should be no greater than 10% of the total number of workstations.

2.7 It should be noted that the analysis revealed that since 1999-2000 across government, the average office space consumption per person has reduced from almost 21m² to 18m². During the same period overall space usage has increased by 30,000m² to approximately 350,000m² across the State, an increase of almost 10%.

2.8 Analysis also indicated that ongoing changes in office accommodation configuration and use is a significant cost. This is commonly known as 'churn'. Based on a total of 280,000m² of government owned and leased space in the CBD and an industry average churn cost of $40m² per annum, it is estimated that these costs could be as high as $10 million per annum.

2.9 Government currently spends approximately $54 million per annum on over 180,000m² of office accommodation space in the Adelaide CBD leased from the private sector through DTEI.

3. DISCUSSION

3.1 Purpose

To adopt best practice principles and a long-term savings strategy that reduces office accommodation space consumption levels and delivers ongoing cost savings.

3.2 The approach to achieving office accommodation savings has two components:

- adoption of best practice principles in the form of a 10-point Action Plan; and
- development and implementation of a savings plan.

3.3 The proposed 10-point Action Plan addresses best practice in key accommodation management issues, in particular:

- reducing overall space usage across government;
- reducing the frequency and cost of churn;
- reducing recurrent operational costs eg energy and water use and maintenance; and
- maximising the use of government owned stock.

SMC has endorsed the 10-point Action Plan for immediate implementation. The Plan is provided in full at Attachment 1.

3.4 The proposed savings plan (as the third option and supported by **SMC**) targets real and sustainable office accommodation savings through the requirement that at the next available lease expiry or when fitout reaches 15 years of age, agencies must, if economic, refit or relocate to accommodation that meets the mandatory government space usage standards at a price consistent with prevailing market costs for the required standard. New fitouts must meet mandated environmental standards and be flexible to reduce churn costs. Agencies must plan to invest in new or upgraded fitouts at these milestones in the economic life of accommodation. Agencies that choose not to re-fit and/or choose to exceed the mandated standards will be required to provide the additional capital and/or have their recurrent funding reduced, unless considered by the Government Office Accommodation Committee and approved by Cabinet. A decision to reduce agency funding will require Cabinet approval.

3.5 The benefits of the proposed savings plan are that it:

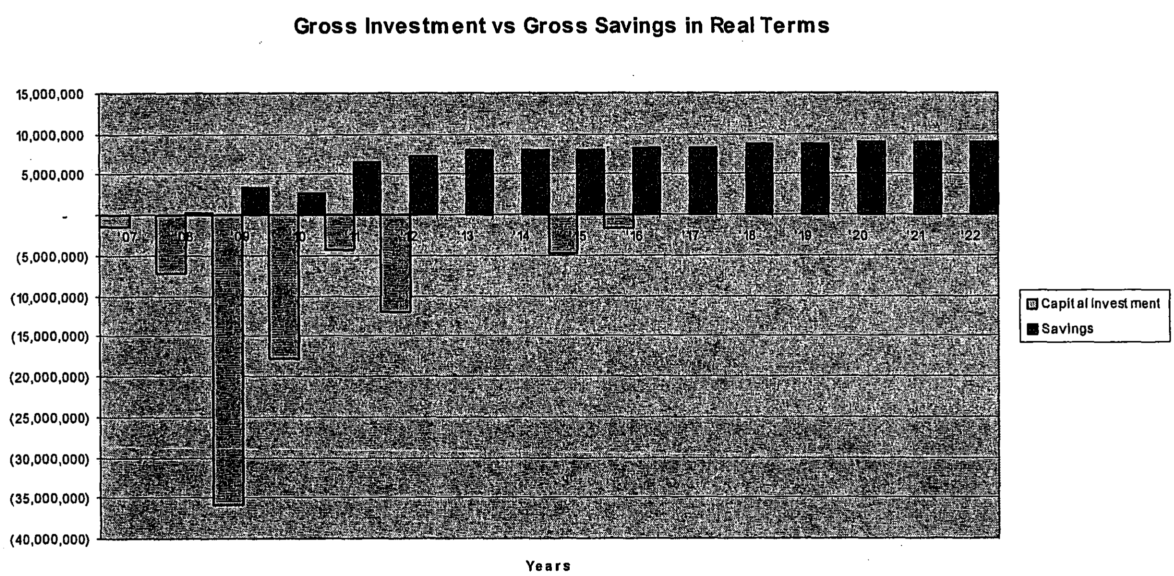
- is consistent with and underpins the 10-point Action Plan;
- places timed obligations on agencies to meet government standards and achieve ongoing savings;

- recognises the realities of obligations to existing leases and the opportunities for building owner incentives;
- implements adjustments to fitouts when it makes economic sense, or where it is a priority rather than investing in space reduction as an end in itself in circumstances where there is a negative cost benefit;
- allows a planned approach to achieving operational efficiency through smarter, innovative workplace design and improved environmental and energy management performance; and
- ensures government has accommodation that meets environmental standards at an appropriate rental commensurate with market rates.

3.6 As a long-term 'invest to save' plan, it aims to progressively harvest savings as each agency updates its fitout to the mandated space and environmental standards.

3.7 Using first principles and assuming that <u>all</u> agencies will meet the standards and adhere to the required timing, the 'best case' strategy, as summarised in the graph shown below, will generate ongoing savings from 2009.

3.8 Savings are projected to peak at around $9m per annum until 2022 when most agencies are at the mandatory space standards and before major fitout upgrades again become necessary. Full details of the estimated capital investment and savings are detailed at Attachment 2. Underpinning assumptions are detailed at Attachment 3.



3.9 As provided to SMC, the 'best case' analysis of agencies' lease expiry profiles and projected savings from refits to meet mandated standards was based on the most recently advised agencies' staff numbers. Changes in agencies' staff numbers subsequent to the SMC analysis are not included, and in particular do not include the impacts associated with Shared Services. The Shared Services initiative will affect individual agency's office accommodation requirements, both through the flow-on effects of staff relocating with the required consolidation of remaining space; and the lease and fitout costs associated with the development of new shared services centres. DTEI will assist agencies to develop plans that take account of the impact of Shared Services as it becomes known.

3.10 As part of developing the savings options, SMC requested additional information on the merits of relocating agencies from the CBD to metropolitan locations. There are a number of challenges associated with relocation including:

- inconsistency with the State Planning Strategy;
- lack of suitable office buildings;
- land costs and availability;
- transport and land use limitations; and
- establishment of information communication technology (ICT) connectivity.

3.11 Dislocation of significant numbers of staff from CBD locations will increase the vacancy rate of commercial buildings at a time when vacancy rates are anticipated to increase. Three options were compared including:

- lease refurbished space in an existing building in the CBD;
- lease space in a new building in the CBD; and
- lease space in a new building in a metropolitan centre.

The analysis indicated that the most cost effective option for government is to refit to government standards in existing CBD buildings, with movement to metropolitan locations the most expensive and least effective option. Attachment 4 provides further information and costing advice.

3.12 SMC noted the findings of the investigation into the option to relocate to metropolitan accommodation, and has endorsed that the third savings plan and the 10-point Action Plan should be proposed to Cabinet as the preferred savings strategy.

3.13 **Economic, financial and budgetary implications**

3.13.1 Investment up to $95 million over the years to 2016 to consolidate space usage and introduce operating efficiencies is necessary to achieve the proposed strategy savings. The level of investment will vary for each agency and will be dependent on the area occupied and the degree to which refurbishment and/or relocation costs apply. Each agency will be required to develop comprehensive business cases based on the mandated standards, including payback rates on investment, to support bids for funding from the 2008-09 budget process onwards.

3.13.2 As the 2007-08 budget has reversed the previous centrally held savings target to 2009-10, it is not proposed to re-establish revised centrally held savings targets over the budget period. Instead, the budget savings will be identified on a case-by-case basis as agencies bring forward their accommodation proposals in line with the lease expiry profiles presented to SMC and as used for the DTEI analysis.

3.14 **Required resources**

3.14.1 While no direct costs are associated with this submission. Capital investment up to $95m (to be considered as separate agency submissions on a case-by-case basis) will be required over the years to 2016 if the potential savings are to be realised.

3.15 **South Australia's Strategic Plan**

3.15.1 This proposal supports the following targets in South Australia's Strategic Plan.

T1.9 Performance in the public sector – administrative efficiency: Reductions in accommodation costs contribute to the target as accommodation is a significant component of agencies' corporate overhead costs.

T3.7 Ecological footprint – reduce South Australia's ecological footprint by 30% by 2050.

T3.13 Energy efficiency – government buildings: The proposal will achieve reductions in overall space use, and hence contribute to reductions in energy and environmental impact by Government.

3.16 **Information and Communication Technology (ICT) Requirements**

3.16.1 No funding is sought for ICT components in this submission.

3.17 **Staffing implications**

3.17.1 The proposal has no direct staffing implications. At a later stage, agencies may bring forward specific accommodation savings proposals in line with the proposed approach that reflect revised staffing requirements.

3.18 **Impact on the Community and the environment**

3.18.1 Business Impact - there are no regulatory or compliance impacts for the commercial building leasing industry.

The 280,000m² of space owned and leased through DTEI represents around 25% of the total Adelaide CBD office accommodation market. Approximately 240,000m² of this space is used as government's office accommodation and on average the space density in this space is 18m²/person. The proposed strategy ultimately increases space density from 18m²/person to 15m²/person, which represents a potential long-term reduction (up to 10 years) in CBD space of around 30,000m² or 3% of the total market, which is presently around 1,000,000m².

The average annual market impact of reductions in public sector demand for leased space on this basis is therefore expected to be less than a 1% per annum. This is not considered a material impact on the overall market, given the time over which the overall reduction is projected to occur and its small size in relation to other projected market changes from the collective impacts of new construction and withdrawn space.

The Department of Trade and Economic Development (DTED) has advised that it is not necessary to use the Business Cost Calculator tool and agrees with the basis of the assessment of the impact on business discussed above.

3.18.2 Environment Impact – there are no direct impacts from this submission however agencies' accommodation proposals developed in response to the proposed savings plan must meet existing energy and environmental standards for base building and fitout. DTEI is separately developing proposals for energy and environmental upgrades for government owned office accommodation for consideration as part of the 2008-09 budget process.

3.18.3 Families and Society – this proposal does not have any direct impact providing the savings strategies do not result in reductions in direct service delivery areas, potentially affecting agencies' capacity to deliver services to families and the community.

3.18.4 Regulatory Impact – this proposal does not have a regulatory impact.

3.18.5 Regional Impact – the proposed strategy refers to Adelaide CBD locations only.

3.19 **Risk Management Strategy**

3.19.1 Not implementing an accommodation savings strategy will result in continued over-expenditure on office accommodation and opportunities to achieve long-term savings will be missed. The endorsement of SMC has provided Government with a commitment from agencies to support and adhere to the savings strategy.

3.19.2 As an 'invest to save' plan, the proposed strategy is dependent on the availability of significant capital for investment in new fitouts over the next 8-10 years. If capital is constrained by other budget priorities, one option is to make a lesser investment in the short-term (possibly in combination with building owners' incentives). This option, based on individual agencies' business cases, would allow agencies to restructure an existing fitout at a lower cost to achieve mandated standards where the fitout is otherwise still functionally acceptable but would defer realisation of full savings potential. In the longer-term, the same investment will still be required to replace and/or upgrade aging fitouts to current standards to maintain functionality in addition to ensuring ongoing savings.

3.19.3 The proposed saving strategy is based on all agencies meeting the mandated standards at expiry or renewal of leases, however there is a risk that the 'best case' strategy will not be realised due to a range of factors. A 'realistic' savings strategy targets best case outcomes but factors reduced investment and savings into the budget forecasts for the out years. Risks to achieving the full savings may arise from:

- not all lease negotiations resulting in full reduction to the standards;
- some agencies seeking exemption on the basis that the accommodation standards should not fully apply due to particular business requirements;
- some agencies successfully seeking to demonstrate that the business case for investment is marginal, as they are already close to space use standards;
- some agencies not proceeding in a timely manner to achieve the plan; and
- Shared Services affecting the ability to achieve the savings due to the potential for churn and dead rental.

In response to these risks, it is proposed that agencies that choose not to re-fit and/or choose to exceed the mandated standards will in all cases, unless Cabinet has granted special exemption, be required to provide the additional capital and recurrent funding through internal budget reprioritisation.

3.19.4 DTEI has restructured its office accommodation services to improve its support to agencies in the development of their accommodation strategic plans. This will assist in the timely review of agencies' lease expiries and the early consideration of a range of accommodation options for agencies to comply with the mandated standards that will demonstrate savings.

The Government Office Accommodation Committee will continue its role in the review of agency accommodation proposals as required in DPC Circular PC018 - Government Office Accommodation Framework. (The composition and terms of reference of the Committee are currently under review.)

3.19.5 The full impact of Shared Services is unknown. There is a risk that agencies will double-count accommodation cost savings arising from staff savings through the establishment of shared services centres that are already included in savings in response to the proposed cost savings strategy in this submission. There is also a risk that agencies will under-report the ongoing costs to consolidate space reductions as Shared Services is implemented.

DTEI is working closely with DTP to clarify how the implementation of the shared services initiative may affect the scope and timing of actions to achieve overall accommodation savings under the proposed savings strategy. A key principle driving this process will be to consolidate vacancies into efficient parcels in both government-owned and leased accommodation that allows effective reuse of existing fitouts pending longer-term accommodation proposals from agencies.

3.20 Consultation

3.20.1 SMC has been engaged in discussions and has endorsed the strategy outlined in this submission.

3.20.2 DTP has been consulted on the basis for calculating potential savings and DTED has been consulted on the impact on business.

3.20.3 During the consultation period comments were received from the SA Police Department regarding staff numbers. It was one of several agencies that raised the issue of numbers. As advised in 3.9 the projected savings from the analysis were based on the most recent figures provided by agencies. All agencies will, at the appropriate time, develop their business cases based on actual staff numbers.

3.21 Communication Strategy

3.21.1 DTEI will engage directly with relevant agencies to develop accommodation options to comply with the mandated standards and to demonstrate savings consistent with this proposal. No public communication is proposed other than through existing lease negotiation processes with building owners.

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4. RECOMMENDATIONS

It is recommended that Cabinet:

4.1 *approves* the adoption of the attached 10-point Action Plan to achieve recurrent savings in office accommodation costs;

4.2 *approves* the implementation of the savings strategy described in Section 3.4 that:

- when leases expire or fitouts reach 15 years of age, agencies must, if economic, refit or relocate to accommodation that meets the mandatory government space usage standards and is priced consistent with prevailing market costs for the required standard; and
- new fitouts must meet mandated environmental standards and be flexible to reduce churn costs.

4.3 *approves* that agencies that choose not to re-fit and/or choose to exceed the mandated standards will be required to provide the additional capital and/or have their recurrent funding reduced, unless considered by the Government Office Accommodation Committee and approved by Cabinet. A decision to reduce agency funding will require Cabinet approval;

4.4 *notes* that the proposed savings strategy requires investment and that DTEI will work with individual agencies to develop full business case submissions at lease expiry or renewal, for later consideration by the Government Office Accommodation Committee, or Cabinet in the case of refits greater than $4 million;

4.5 *notes* that the quantum of potential savings will be subject to the impact of the proposed shared services initiative and any agency successfully arguing for special needs and a waiver of the mandated standards and/or a deferment of planned upgrades; and

4.6 *notes* that initial analysis indicated that the most cost effective option for government is to refit to government standards in existing CBD buildings. Relocation of major accommodation to regional centres in metropolitan Adelaide will require additional investment and will not generate additional savings.

HON PATRICK CONLON MP
MINISTER FOR INFRASTRUCTURE

8 November 2007

In Cabinet

19 NOV 2007

APPROVED

PREMIER

Attachment 1

10-POINT ACTION PLAN TO ACHIEVE ONGOING OFFICE ACCOMMODATION COST SAVINGS

1) Use space more effectively by adherence to Government's office accommodation standards - $15m^2$/person and no more than 10% enclosed offices by agencies.

2) Where it is economically feasible to do so, agencies plan and budget to either relocate or refit space that exceeds the standards at the next lease expiry opportunity and/or when there is refit related to internal restructure.

3) Refitted space should be generic in design, highly flexible and with very limited solid partitioning to reduce churn costs.

4) Agencies manage and reduce incidental and minor fitout changes to accommodate organisational changes with a specific target to reduce churn costs by $10/m² across all leased and owned office space occupied by Government agencies.

5) Any future relocation to new buildings is carefully considered for the impact on the across-government cost of office accommodation and energy efficiency. Unless supported by either Cabinet or the Government Office Accommodation Committee, above CPI rental increases due to upgrade of building quality will be met from reprioritising of agency funding resources.

6) Preference be given to government owned accommodation.

7) Where financial incentives to renew or enter into new leases are offered by building owners, if economic, these funds are taken as a capital contribution to fitout changes that meet the mandatory space standards.

8) Future rental reviews be negotiated to achieve outcomes which limit annual increases to as close as possible to CPI, with preference given to energy and water efficient buildings (eg 4 star energy rating).

9) Agencies consider across-government facilities management providers for cleaning.

10) Agencies implement measures to control the costs of energy and water.

Capital Investment and Savings

	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21	'22
99Gawler Place					-$257,794	$6,739	$7,351	$7,983	$8,633	$9,303	$9,993	$10,703	$11,435	$12,189	$29,958	$30,758
108 King William Street	-$817,390	$133,471	$138,950	$144,594	$150,407	$156,394	$162,561	$168,913	$175,456	$182,194	$189,135	$255,507	$262,871	$270,455	$278,268	$286,314
25 Grenfell St										-$1,585,685	-$53,552	-$50,223	-$46,794	-$43,262	-$39,625	-$35,878
50 Grenfell St - Tourism			-$1,841,275	$161,793	$168,637	$175,687	$182,949	$190,428	$198,132	$206,067	$214,240	$222,658	$231,329	$326,425	$335,624	$345,099
77 Grenfell St		-$2,067,812	$95,265	$102,954	$110,873	$119,030	$127,432	$136,085	$144,999	$154,179	$163,636	$173,375	$375,483	$385,816	$396,458	$407,421
91 - 97 Grenfell Street									-$3,853,447	-$57,971	-$52,579	-$47,026	-$41,306	-$35,415	-$29,346	-$23,096
1 Richmond Road						-$3,163,526	$54,031	$59,472	$65,076	$70,848	$76,793	$82,917	$89,224	$95,721	$102,412	$109,304
63 Pirie Street	-$210,134	$74,299	$77,215	$80,220	$83,314	$86,501	$89,784	$93,165	$96,648	$100,235	$103,930	$133,511	$137,430	$141,468	$145,626	$149,910
144 North Terrace		-$233,240	$27,048	$28,191	$29,367	$30,579	$31,827	$33,113	$34,437	$35,801	$37,206	$38,653	$53,871	$55,406	$56,987	$58,616
45 Grenfell St		-$214,389	$52,772	$54,833	$56,955	$59,141	$61,393	$63,712	$66,101	$68,561	$71,095	$73,706	$94,857	$97,626	$100,479	$103,416
50 Pirie St-DTF			-$315,721	$100,857	$104,748	$108,756	$112,884	$117,135	$121,515	$126,025	$130,671	$135,457	$140,386	$178,056	$183,285	$188,671
50 Pirie St-DTED			-$202,685	$32,214	$33,561	$34,948	$36,377	$37,849	$39,364	$40,926	$42,534	$44,190	$45,896	$62,734	$64,544	$66,408
178 North Tce			-$2,081,830	$215,791	$226,873	$238,287	$250,044	$262,154	$274,627	$287,474	$300,706	$314,336	$328,374	$524,492	$539,385	$554,725
101 Grenfell St-PIRSA		-$533,671	-$1,041,521	-$256,361	$244,369	$257,900	$271,837	$286,191	$300,977	$316,206	$331,892	$348,048	$616,943	$634,083	$651,738	$669,922
101 Grenfell St-DTEI		-$430,641	-$911,231	-$121,900	$383,127	$401,083	$419,577	$438,627	$458,248	$478,457	$499,273	$520,714	$798,594	$821,340	$844,769	$868,900
50 Grenfell St-DH				-$257,189	$2,308	$2,673	$3,048	$3,435	$3,833	$4,244	$4,666	$5,101	$5,550	$6,011	$19,328	$19,817
150 Grenfell St				-$1,686,333	$69,218	$74,461	$79,862	$85,424	$91,153	$97,054	$103,133	$109,393	$115,841	$122,483	$256,925	$263,971
50 Pirie St-DPC		-$296,074	$27,376	$28,637	$29,937	$31,276	$32,655	$34,075	$35,538	$37,045	$38,597	$40,196	$60,132	$61,828	$63,574	$65,374
26-28 Leigh Street									-$221,282	$42,796	$44,535	$46,326	$48,171	$50,072	$52,029	$54,046
63 Pirie Street-DPC		-$347,154	$75,133	$78,149	$81,255	$84,455	$87,750	$91,144	$94,640	$98,241	$101,950	$134,759	$138,694	$142,747	$146,921	$151,221
108 Hindley St										-$790,748	$104,660	$109,343	$114,167	$119,135	$124,253	$129,523
2-4 Henley Beach Road	-$319,569	$14,918	$15,952	$17,018	$18,115	$19,246	$20,410	$21,609	$22,844	$24,117	$25,427	$50,842	$52,233	$53,665	$55,140	$56,659
162 Grenfell St				-$390,026	$3,538	$4,311	$5,106	$5,926	$6,770	$7,640	$8,535	$9,458	$10,408	$11,387	$39,708	$40,746
178 North Terrace-DFC			-$398,325	$158,871	$165,212	$171,743	$178,470	$185,399	$192,536	$199,887	$207,458	$215,257	$223,289	$289,606	$298,127	$306,905
50 Grenfell St-OLG						-$902,246	$221,704	$227,752	$233,982	$240,398	$247,007	$253,814	$260,826	$268,047	$275,486	$283,147
30 Flinders St						-$8,776,001	$556,779	$590,197	$624,618	$660,071	$696,588	$734,201	$772,942	$812,845	$853,945	$896,278
50 Grenfell St-PC						-$213,395	$39,936	$41,511	$43,134	$44,806	$46,528	$48,301	$50,128	$52,009	$53,947	$55,943
50 Grenfell St-SO						-$227,621	$34,983	$36,395	$37,850	$39,348	$40,891	$42,480	$44,117	$45,803	$47,539	$49,328
45 Pirie St		$0	-$4,102,401	-$3,663,935	$1,754,271	$1,801,265	$1,849,669	$1,899,525	$1,950,876	$2,003,769	$2,058,248	$2,114,361	$2,078,258	$2,137,789	$2,199,106	$2,262,262
91-97 Grenfell St - OCBA									-$2,847,284	$380,986	$398,844	$417,237	$436,181	$455,695	$475,793	$496,495
77 Wakefield St				-$462,539	$76,798	$79,842	$82,977	$86,207	$89,533	$92,959	$96,488	$100,123	$103,867	$107,723	$141,467	$145,558
30-46 Wright St						-$1,386,122	$99,017	$103,259	$107,627	$112,126	$116,761	$121,534	$126,451	$131,515	$136,731	$142,104
44 and 60 Waymouth St			-$1,869,955	$109,527	$114,971	$120,579	$126,354	$132,303	$138,430	$144,741	$151,242	$157,937	$164,833	$265,624	$272,940	$280,476
25-27 Franklin St		-$2,107,458	$15,080	$17,047	$19,073	$21,160	$23,309	$25,523	$27,804	$30,152	$32,571	$35,063	$111,817	$114,460	$117,183	$119,988
25-27 Franklin St		-$600,172	-$1,803	-$1,626	-$1,444	-$1,257	-$1,064	-$865	-$660	-$449	-$231	-$8	$14,217	$14,454	$14,699	$14,951
Riverside		-$1,130,621	-$321,226	$745,149	$784,391	$824,810	$866,442	$909,323	$953,490	$998,982	$1,045,839	$1,769,971	$1,819,682	$1,870,884	$1,923,622	$1,977,942
60 Wakefield Street			-$3,003,788	-$2,389,935	$802,547	$820,511	$838,924	$857,797	$877,142	$896,970	$917,295	$938,127	$917,480	$939,367	$961,801	$984,796
31 Flinders Street - Justice			-$600,653	$159,392	$163,077	$166,854	$170,725	$174,694	$178,761	$182,930	$187,203	$191,583	$190,073	$194,675	$199,391	$204,226
30 Wakefield Street			-$549,422	$47,180	$48,059	$48,961	$49,885	$50,832	$51,803	$52,798	$53,818	$54,863	$49,935	$51,033	$52,159	$53,313
200 Victoria Square			-$2,723,445	-$2,223,399	$812,294	$830,925	$850,021	$869,595	$889,658	$910,223	$931,302	$952,908	$941,521	$964,221	$987,488	$1,011,337
11 Hindmarsh Square			-$5,393,088	-$4,624,619	-$4,817,827	$1,023,262	$1,043,151	$1,063,537	$1,084,433	$1,105,852	$1,127,805	$1,150,308	$1,059,523	$1,083,165	$1,107,398	$1,132,237
136 North Terrace - DTEI			-$4,661,771	-$3,978,325	$254,459	$258,477	$262,594	$266,815	$271,141	$275,575	$280,121	$284,779	$242,670	$247,565	$252,582	$257,724
136 North Terrace - PIRSA			-$3,415,153	$404,470	$413,014	$421,772	$430,749	$439,950	$449,381	$459,048	$468,957	$479,113	$458,172	$468,843	$479,780	$490,990
108 North Tenace			-$68,002	$73,198	$74,961	$76,767	$78,619	$80,517	$82,462	$84,456	$86,500	$88,595	$89,393	$91,594	$93,850	$96,162
200 Victoria Square-DTF			-$2,239,829	$310,921	$314,654	$318,480	$322,401	$326,420	$330,540	$334,763	$339,091	$343,528	$267,263	$271,924	$276,702	$281,600
TOTAL	-$1,347,093	-$7,740,546	-$35,208,329	-$16,985,181	$2,517,320	-$5,793,294	$10,162,525	$10,503,128	$4,431,560	$9,203,404	$12,026,802	$13,256,022	$14,066,426	$14,973,301	$15,640,176	$16,105,608
CAPITAL	-$1,347,093	-$7,517,859	-$38,784,136	-$20,054,560	-$5,075,622	-$14,668,911	$0	$0	-$6,421,973	-$2,376,432	$0	$0	$0	$0	$0	$0
SAVINGS	$0	$222,687	$3,575,806	$3,069,379	$7,592,941	$8,875,616	$10,162,525	$10,503,128	$10,853,533	$11,579,836	$12,026,802	$13,256,022	$14,066,426	$14,973,301	$15,640,176	$16,105,608

Discount at 3%	1.0000	0.9709	0.9426	0.9151	0.8885	0.8626	0.8375	0.8131	0.7894	0.7664	0.7441	0.7224	0.7014	0.6810	0.6611	0.6419
Capital	-$1,307,658	-$7,298,892	-$36,557,768	-$19,352,763	-$4,509,624	-$12,653,531	$0	$0	-$5,069,565	-$1,821,336	$0	$0	$0	$0	$0	$0
Savings	$0	$216,201	$3,370,540	$2,808,916	$6,746,230	$7,656,185	$8,510,955	$8,540,004	$8,567,879	$8,874,980	$8,949,070	$9,576,432	$9,865,908	$10,196,089	$10,339,999	$10,337,577

Attachment 2

Attachment 3

ASSUMPTIONS APPLIED TO MARGINAL COST SAVINGS ANALYSES

- Analysis (in leased buildings) will commence at the time of next lease expiry
- All leases taken for 10 years with option to renew for 5 years
- Reduce space by refitting existing area or relocate to meet 15m²/person:
  - 15% incentive - taken as capital contribution towards fitout
  - government to pay difference in capital cost of new fitout (Based on $1,200/m²)
  - decanting required only for Riverside, 45 Pirie Street and government owned buildings
  - in all other options, relocate to a different building to a reduced area
- Remain in same area ('do nothing' option):
  - 15% incentive - taken as capital cost of improvements to fitout in lieu of rental rebate
  - no additional Government capital contribution
  - no decanting assumed
- New rent per m² same in both options
- Rent reviews at 3% per annum
- Churn savings of $10/m² before fitout, $20/m² for 10 years after refit, then $10/m² beyond
- Full or partial refit to reduce area to meet standards (cost estimated based on age of existing fitout as follows
  - 10 to 15 years old – full fitout at $1200/m²
  - 1 to 10 years old – partial fitout at $600/m²
- Estimated life of fitout is 15 years
- Decanting space (assumes that agency will refit and return to pre-existing location) assumptions as follows
  - for every 1,000m² being refitted 660m² of decanting space will be required at $330/m² (gross)
  - maximum area to be refitted at any one time is 3,000m² - will require 2,000m² decanting space
  - for up to 1,000m² being refitted will require decanting space for a term of 6 months
  - for 1,000m² - 2,000m² will require decanting space for a term of 9 months
  - for 2,000m² - 3,000m² will require decanting space for a term of 12 months
  - over 3,000m² will require decanting space for a term of 18 months
- Refit - planning/construct timeframes
  - up to 1,000m² will require 6 months planning and 6 months to construct
  - 2,000m² - 3,000m² will require 12 months planning and 12 months to construct
  - over 3,000m² will require 18 months planning and 18 months to construct
- No incentive in government owned buildings
- Refit in government owned buildings occurs when fitout reaches age 15 years or immediately where area per person is above 18m²
- Assumes no future employment growth and/or requirement for additional space
- Heritage buildings cannot be refitted to meet space standards because of physical constraints

OFFICE ACCOMMODATION SAVINGS STRATEGY - ASSESSMENT AND IMPACT OF RELOCATING TO METROPOLITAN ACCOMMODATION

BACKGROUND

At the Senior Management Council meeting on 21 March 2007 it was suggested that one alternative means to achieve savings might be to relocate one or more agencies from the CBD to metropolitan locations. The following information and attached financial analyses highlights the key issues associated with that alternative.

DISCUSSION

The following challenges to the proposal to relocate to metropolitan centre accommodation have been identified.

Building availability - at present there are no available existing buildings in metropolitan centres that could accommodate the number of employees accommodated in most CBD buildings. Movement to the suburbs would require construction of new government owned accommodation or lease of newly constructed buildings from the private sector.

Land use and transport - most metropolitan centres are more difficult to access via public transport especially for those employees living at opposite ends of the metropolitan area. This results in a requirement for larger land parcels to accommodate additional car parking space. Increased use of private vehicles by government employees does not support sound ecologically sustainability management.

Land availability – it is not certain that the required large parcels of land in metropolitan centres will be available. Assuming that a site can be found it will need to be in the order of 9,000m² for construction of an 18,000m² building. This is due to the restriction of building no higher than four storeys, resulting in much larger floor plates, and the requirement to provide employee car parking at a rate significantly higher than required in the CBD. Equivalent land use requirement to construct a similar size building in the CBD is approximately 2,000m². Whilst building construction costs for a metropolitan 'low-rise' site are likely to be lower than a CBD option this cost 'saving' is neutralised by the requirement and cost to provide additional car parking.

ICT connectivity – this is already present in most CBD locations, is relatively inexpensive and has direct links to the Glenside Data Centre. For a new metropolitan building this connectivity would need to be established adding additional costs.

Private sector owner lobbying - over the next 3-4 years it is anticipated that there will be an increase in the vacancy rate of office accommodation in the CBD and any large-scale move by Government out of the CBD will result in public lobbying from the property market and the Property Council.

Planning - the State Planning Strategy (*Planning Strategy for Metropolitan Adelaide, 2006, page 16*) supports the CBD as the principal focus of higher order office activities and seeks to strengthen the CBD as the pre-eminent hub of business, retail, cultural education, visitor accommodation and government activity in South Australia.

Employees - it is likely that any relocation out of the CBD would be met with some resistance linked to available transport infrastructure and access to services and amenities. This could affect an agency's capacity to recruit and retain staff.

The attached financial analyses have been conducted, based on the stated assumptions, to establish notional relative net present values (NPV) over 10 years of three options:

Option 1 - leasing 18,000m² of existing, refurbished office space in the CBD.
Option 2 - leasing 18,000m² in a new building in the CBD.
Option 3 - leasing 18,000m² in a new building in a metropolitan centre.

Option 1 – lease existing refurbished office space in the CBD

Gross rental $350/m².
Fitout cost $1,200/m².
Building owner incentive of 15% taken as cash contribution towards fitout cost.
Rent reviews 3.25% per annum.
NPV ($58.7) million.

Positive attributes	Negative attributes
• Allows agency to maintain CBD presence • Conforms to State Planning Strategy • Minimal additional ICT infrastructure costs • Refurbishment will result in improved environmental performance of an existing building • Does not add to future office accommodation vacancy rates in CBD • Lowest NPV of 3 options	• Higher fitout cost ($1,200/m²) as not integrated with building construction

Option 2 – lease a new building in the CBD

Gross rental $450/m².
Fitout cost $1,000/m².
Building owner incentive of 10% taken as cash contribution towards fitout cost.
Rent reviews 4% per annum.
NPV ($71.6) million.

Positive attributes	Negative attributes
• Allows agency to maintain CBD presence • Conforms to State Planning Strategy • Minimal additional ICT infrastructure costs • New building will increase	• Will add to future office accommodation vacancy rates in CBD • Increased recurrent cost from higher rental than *Option 1* • Higher NPV than *Option 1*

Positive attributes	Negative attributes
government's % occupancy of 5-star green accommodation • Lower fitout cost ($1,000/m²) as integrated with construction of building • New building will increase productivity of staff and improve recruitment and retention rates	

Option 3 – lease a new building in a metropolitan centre

Gross rental $460/m².
Fitout cost $1,000/m².
Building owner incentive of 10% taken as cash contribution towards fitout cost.
Rent reviews 4% per annum.
Additional ICT infrastructure establishment costs $475,000 (capital)
Additional ICT operating costs $1.75 million (recurrent over 10 years)
NPV ($72.8) million (excludes ICT costs above).

Positive attributes	Negative attributes
• New building will increase government's % occupancy of 5-star green accommodation • Relocation to a metropolitan/regional centre will support the economic development of the region • Lower fitout cost ($1,000/m²) as integrated with construction of building • New building will increase productivity of staff	• Land in appropriate metropolitan centre location may not be available • Lack of equivalent public transport infrastructure • Land area required significantly greater due to the need to provide car parking. • Does not allow agency to maintain CBD presence • Does not conform to State Planning Strategy • Will add to future office accommodation vacancy rates in CBD • Significant additional capital and recurrent ICT infrastructure costs • Rental will be higher than Options 1 and 2 due to investor risk reasons – i.e. investor will seek higher yield to compensate for the risk that Government may quit the building at lease expiry. • Higher NPV than Options 1 and 2. • Location may adversely impact upon recruitment and retention of employees

<u>Summary</u>

- The most cost effective option for government is to refit to government standards in existing CBD buildings, with movement to metropolitan locations the most expensive and least effective option.