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Deloitte Access Economics

Witness Name Minister Cormann

Organisation: .....

# The local impacts of a relocation of the Department of Immigration and Border Protection out of the Belconnen Town Centre

Department of Finance

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**Deloitte.**

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## Executive Summary

The inherent uncertainties associated with a major economic change such as the relocation of a large employer mean it is difficult to be definitive regarding the precise magnitude of the impact of a relocation of the Department to the Canberra Airport. However, a reasonable interpretation of the analysis above would indicate that they are potentially significant when assessed relative to the size and characteristics of the affected economy. Removing one third of the employment from the region would likely jeopardise the viability of some local businesses which receive a significant portion of their revenue from the Department's staff. Comparing the average turnover of businesses in the area to the indicative magnitude of reduced spending brought about by the relocation would appear to support this finding.

Broader impacts on the transport network, and the resulting impacts on commuting time for both the Department's employees and other road users, also indicate a negative and significant impact of a relocation. The Canberra Airport is serviced by roads that are already congested, and is less well serviced by public transport than the Belconnen Town Centre.

Departmental employees will also likely be impacted by the relocation. Taking increased travel times for Belconnen residents as a proxy for this inconvenience, an order of magnitude estimate would place the cost at around 10% of an employee's annual wage. Data on employee residential location could be used to refine this estimate.

While a replacement tenant for the Department's current building would mitigate some of these impacts, there is currently no indication that a replacement tenant is likely to be forthcoming. At the same time, the unique features of the building, in particular the volume of floor space, suggest that an alternative tenant, or tenants, may be difficult to find. Further, the relatively low profit margins in retail, and the significant loss of revenues immediately upon relocation, would mean that the detrimental impacts to the local businesses community are likely to be realised in the short terms and not mitigated by medium to long term replacement of demand.

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# 1 Introduction

This report identifies the potential local impacts of a relocation of the Department of Immigration and Border Protection (the Department) from its current main site within the Belconnen Town Centre to the Canberra Airport. This follows a tender issued by the Department for a headquarters accommodation of 80,000 square metres NLA, and a [REDACTED]. This document does not assess the financial merit of such a move, but instead focuses on the impact on the local Belconnen economy, the Canberra road network and associated infrastructure, and the impacts on the employees of the Department.

The local community was not explicitly consulted as part of this analysis. However, capturing the impacts on businesses, employees and the transport network is likely to capture most of the concerns that community members would seek to raise in a formal consultation process. More details of the basis for the assessment are included in the following sections.

## 2 The impacts on the local business community

According to ABS Census data the Belconnen Statistical Area level 2 (SA2), which aligns closely with the Belconnen Town Centre, employed approximately 12,500 people in 2011. With the Department employing around 4,000 people this amounts to nearly one third of total employment in the area.

A loss of this proportion of the local workforce would have a significant impact on the revenues of surrounding businesses. Those most affected would be those which service the work-hour demand of Departmental employees. Deloitte Access Economics is not aware of any robust study of spending patterns of individuals over the course of a day. However, it is likely that the majority of spending occurs at local retail and food businesses.

The ABS provides counts of businesses by industry for each SA2 region. In June 2014 it indicates that there were 502 employing businesses in Belconnen<sup>1</sup>. Of these, 114 were in the retail trade (63) or food and accommodation services (51) categories. By making assumptions about the average work-day spending per employee it is possible to identify the magnitude of the impact of the relocation on the average business in the area.

As noted, we are not aware of any robust estimate of the amount spent by employees at their location of employment. However, two other impact assessments of the Department's relocation to the Canberra Airport have used values ranging between \$15 and \$45 per day. The latter estimate appears to be based on total spending by employees each day, not necessarily at the place of work. For the purposes of this analysis, a range of between \$10 and \$30 is assumed.

With 4,000 employees and 250 working days per year this translates to lost revenues to local businesses of between \$10 million and \$30 million annually. With 114 businesses identified in the food and retail sectors, this suggests average lost revenue per business of between \$88,000 and \$263,000. This use of averages is likely to obscure some important points:

- Some of this lost spending may be realised by businesses outside of the retail and food services categories, although this spending is judged to be small;

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<sup>1</sup> The ABS data is based on catalogue number 8165.0. This includes a count of businesses in a region based on ATO Business Activity Statement data. Physical business location may not always align with the address on the BAS statement, most particularly if businesses with multiple locations submit a joint statement. Therefore, this source may understate the true numbers of businesses in Belconnen, however, discussions with ABS indicated that this is the best available source for business counts by location. Since it is likely that not all food and retail businesses in the SA2 will be affected by the relocation, including all of these businesses would likely result in the number of businesses being overstated. Hence, there are reasons to believe that the count of businesses by SA2 may either under-estimate or over-estimate the true numbers of businesses impacted, and that it is difficult to tell which of these countervailing effects will outweigh the other. Overall, basing the analysis on the business count as reported by the ABS appears a robust and consistent approach to analysing the likely magnitude of impacts on local businesses.

LIA of a relocation of the Department of Immigration and Border Protection

- The revenue impacts are unlikely to be spread evenly across all businesses. Larger businesses (such as large grocery suppliers) may bear proportionally more of the impact than smaller businesses;
- Similarly, those businesses (particularly food services) in closest proximity to the Department are likely to bear proportionally more of the impact.

Nonetheless, these average values indicate that there would be significant impacts on the viability of businesses in the Belconnen Town Centre. The majority of businesses in the Belconnen Town Centre are small, with only eight of the 63 retail businesses, and six of the 51 businesses in the food and accommodation sector, employing more than 20 workers.

By turnover, around 40% of the businesses in the retail sector in Belconnen have total sales of less than \$500,000 annually. This is slightly higher for the food and accommodation sector at 55%. 21% and 22% of businesses in the two industries have total turnovers of less than \$200,000 respectively.

**Table 2.1: Turnover by number of businesses by industry**

Industry	Zero - \$50k	\$50k - \$100k	\$100k - \$200k	\$200k - \$500k	\$500k - \$2m	\$2m or more	Total
Retail	5	3	5	13	23	14	63
Food	3	3	6	18	19	5	54

Source: ABS, Catalogue number 8165.0

Retail and food businesses tend to operate on low profit margins with a relatively high proportion of fixed rental costs, particularly in main shopping precincts where rents are higher than average. The ABS indicates that average profit margins for businesses in the retail trade sector tend to fall in the 4-5% range nationally, while food services businesses tend to record higher profit margins of around 10-12%. The data suggests these margins have been relatively constant over time.

Although it is not possible to provide a detailed estimate of the number of businesses which will be made unprofitable as a result of the relocation, the combination of a high proportion of lost revenue as a proportion of total turnover, together with low profit margins, indicates that the viability of a significant share of the local businesses would be brought into question. This is against the backdrop of already high commercial vacancy rates in the ACT, with the 15.4% vacancy rate in January 2015 the highest on record and second only to Brisbane. This is indicative of low profitability for businesses in the region..

Unless this turnover loss is going to be matched by the introduction of comparable activity, such as a new major office tenant move or significant residential tower development, this impact will sustain into the medium term. Deloitte Access Economics understands that there are no prospects for a Government tenant, or tenants, to fill the space vacated by the Department, meaning that any tenant would be from the private sector. There are few private sector tenants of sufficient size to fill this space, and while the space could be occupied by a set of tenants either case would likely see the building vacant for some period. Finally, we do not think it appropriate that local impacts be considered as able to be mitigated on the basis of speculative tenancy arrangements.

### 3 The impacts on the transport network

The changed travel patterns of the 4,000 Department employees has the potential to significantly impact on Canberra's road and transport network. Approximately 60% of workers employed in Belconnen also live in Belconnen, meaning that the transport impacts of those workers are relatively localised to the area. Relocating 4,000 workers to the Canberra Airport would place increased pressure on the main road between Belconnen and the Airport.

Territory and Municipal Services (TAMS) were consulted on the current levels of congestion on Canberra's main roads. They indicated that the main East-West arteries were already congested in peak hours. These roads include the main routes connecting Belconnen to the Airport (Belconnen Way, Parkes Way, Limestone Avenue, Hindmarsh Drive and Morsehead Drive).

Assuming that employees of the Department are representative of the broader Belconnen trend (such that 60% of Departmental employees live in Belconnen) this would translate to an additional 2,400 employees making the commute to the Airport. TAMS indicated that a scaling factor of 80% is typically applied to account for workers on sick leave or taking other forms of transport, such that in the order of an additional 1,920 workers would be added to these roads on a daily basis. While the majority of these vehicles are likely to travel along these main East-West arteries, some from Gungahlin may travel along the Majura parkway which may somewhat reduce the increased congestion on existing roads.

By way of comparison, TAMS indicated that sections of Parkes Way are currently at maximum capacity of 1,800 vehicles per hour. Hence, the addition of even several hundred vehicles per hour would likely lead to a significant increase in congestion as congestion costs increase exponentially as maximum capacity is reached and then passed. The addition of nearly 2,000 vehicles would therefore severely impact on congestion on these main routes into the airport in peak hours, increasing congestion and travel times.

In addition to increased congestion, additional pressure would be placed at key intersections and on infrastructure close to, and at, the Airport (including parking). This is particularly the case at the key intersections around Pialligo where all routes from the South, West and North of Canberra converge to Pialligo Avenue out to the Airport.

The Airport is also serviced by fewer bus routes than the Belconnen Town centre, indicating that there is likely to be a reduction in total usage of public transport for Departmental employees. There are only two routes currently servicing the Airport, routes 11 and 792. The 11 runs from the city bus interchange, leaving approximately every 20 minutes before 9am and taking around 30 minutes to reach Brindabella Business Park. The 792 runs from the Woden bus interchange as a Red Rapid service between 6:30-8:30am and in the reverse direction between 4:20-6:02pm, taking around 30 minutes. Employees wishing to take public transport to the Airport would therefore be required to first hub through one of these two interchanges before catching one of these two routes, likely incurring some

additional waiting time in the connection<sup>2</sup>. In contrast, the Belconnen Town Centre is serviced by 29 routes.

While this analysis does not amount to a complete transport impact assessment, on the basis of its findings it is judged that the increase in vehicles commuting to the Airport in peak hours is large relative to current capacities on the key roads, and that there would be a significant increase in congestion (and its associated costs).

### 3.1 The impacts on DIBP employees

In addition to the increase in congestion costs, Department employees will incur an increased travel time in commuting to the airport, with corresponding impacts on either their time spent at work or on leisure. Other disruptions may be felt in respects to changing patterns of childcare or use of other services as a result of changing travel patterns.

These costs can be proxied through standard approaches to valuing travel time in transport economics. In this literature the standard approach is to value work travel time at the average wage of the employee scaled for appropriate on-costs. We have no data on the residential location of the Department's workers, however, assuming as above that 60% live in Belconnen, the increase in travel costs can be approximated.

According to Google Maps, the travel time from Belconnen to the Airport in peak hour is around 20-30 minutes<sup>3</sup>. Taking the lower end of this range<sup>4</sup> this amounts to a 40 minute increase in travel time per employee per day. Over the course of a year this adds an additional 320,000 commuting hours for the 1,920 employees assumed to live in Belconnen currently.

Assuming an average annual wage of these employees of \$70,000 inflated for on-costs and adjusted for labour taxes<sup>5</sup> this amounts to an hourly cost of \$45. Multiplying this by the 320,000 increase in commuting hours implies a dollar value of \$14.4 million in increased travel time for Departmental employees, or an increase of \$7,500 per employee. This approximates the value of lost work and leisure times and implies a significant impost on these employees.

Again, this analysis is partial in the sense that it does not take into account the travel patterns of the approximately 40% of workers not living in Belconnen. Some of these may also experience an increase in total travel time, while others may experience reduced travel

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<sup>2</sup> For example, a commuter from Belconnen would face a one hour additional commute from the Belconnen bus interchange to Brindabella Business Park in the morning. This is based on them catching the 343 service to the City leaving at 7:48am and arriving at 8:10am. The connecting 11 route is taken to Brindabella Business Park at 8:26am, arriving at 8:48am.

<sup>3</sup> The points taken for this analysis were the corner of Belconnen Way and Coulter Driver to the Canberra Airport at 8:30am.

<sup>4</sup> This accounts partially for the fact that the increased in travel times should be the time taken to travel from the place of residence to the Airport, less than time taken to travel from the place of residence to the Department's current location. For most employees living close to, or West of, the Belconnen Town Centre, the distance from the chosen location to the Airport should be a close approximation of this increase in travel.

<sup>5</sup> Austroads recommends scaling the pre-tax wage by 28% for these net on-costs and taxes in calculating travel time costs.



times. In the absence of specific details on the residential locations of the Department's workers it is not possible to arrive at a more accurate estimate. However, travel times from both Woden and Tuggeranong are roughly equal to Belconnen and the Airport, indicating that residents in these locations will not be significantly impacted by the relocation.

Overall, this analysis indicates that the impacts of the relocation on the Department's employees will be significant, and equivalent to just over 10% of their annual wage when monetised. This cost may manifest in different ways, however, placing a value on time to capture the opportunity cost of this time provides a meaningful indication of the magnitude of these costs.

## 4 The National Capital Plan and the role of town centres

Canberra has been developed around a set of five town centres, including the Belconnen, Gungahlin, Tuggeranong and Woden town centres and the Civic Centre. The town centres were originally intended to provide contained locations in which residents could access required goods, services and employment, thereby reducing the pressure on the city centre and facilitating a de-centralised network of residential and employment nodes.

The key role of large Commonwealth Government departments as anchor tenants in the town centres has been explicitly recognised in Canberra's planning. The National Capital Plan provides a framework for strategic planning for Canberra and states that while '*private sector office may be located in any Defined Office Employment Centre...[p]ublic sector office employment should be encouraged to locate in Civic and the Town Centres*'<sup>6</sup>. It further states that '*[p]ublic sector office employment established in the Town Centres should be encouraged to remain in that Town Centre or, where relocation is proposed, to locate in another Town Centre*'. This is to maintain the original role of the town centres as described above. Further, the National Capital Plan requires consideration of the transport network, both public transport and the network of main roads, in planning considerations.

The Canberra Airport is designated as a Defined Office Employment Centre, and hence according to the National Capital Plan is primarily intended as a location for private sector employment. While this memo is not intended to provide a rigorous statement on the strategic planning aspects of a relocation of the Department to the Airport, it is noted that the principles of the National Capital Plan are reflected in the analysis above. In particular, the likely impact on the Belconnen Town Centre from the loss of the Department as an anchor tenant, and on the potential impact on the transport network.

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<sup>6</sup> National Capital Authority, *Consolidated National Capital Plan: Incorporating Amendments*, 2014, page 54.

## Conclusions

We find that the impacts on the Belconnen economy and the ACT community more generally would be negative and, against the benchmarks adopted here, significant.

- The short term viability of a significant number of businesses in the Belconnen Town Centre would be put in doubt as a result of reduced spending by Departmental employees.
- The majority of the traffic impacts would be felt on the main East-West roads between Belconnen and the Canberra Airport, roads that are already at, or reaching, capacity in peak hours.
- The impacts on the travel patterns of Department employees, many of whom live in close proximity to the Department would be significant.

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