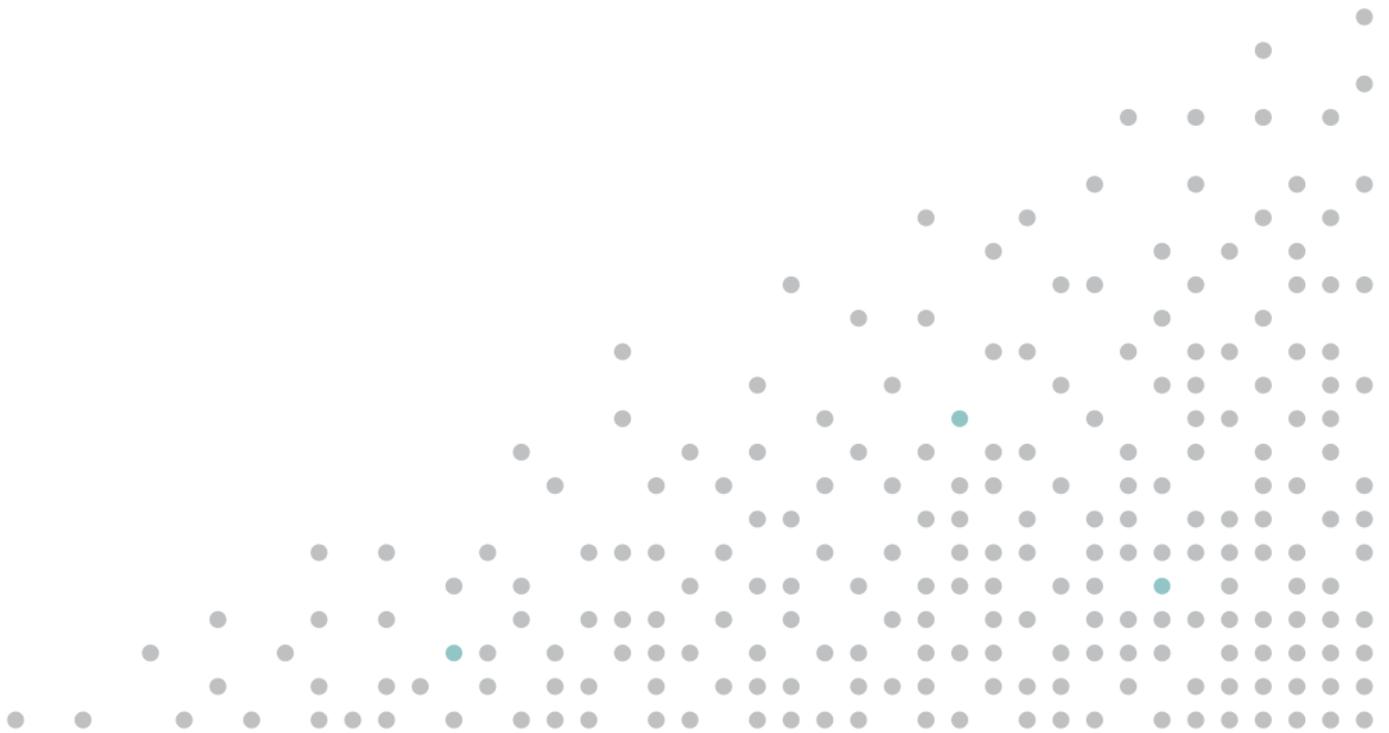


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Australian Government
Department of Finance



Local Impact Assessment Methodology

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Executive Summary

1. The relocation of non-corporate Commonwealth entities (NCEs) can have significant impacts on the local areas in which they are based, particularly for larger NCEs where they constitute a significant proportion of employment in a locality. This has the greatest potential to occur in the town centres in the Australian Capital Territory (ACT), or in regional Australia. The potential relocation of large local employers also has strategic planning implications, particularly where town centres and transport networks have been, at least in part, constructed around the locality as an employment centre.
2. In some circumstances a detailed local impact assessment will be required, prior to approaching the market for new accommodation, where a potential move would adversely affect a local economy, transport and logistics infrastructure and/or give rise to adverse social and community effects. This detailed local impact assessment, if required, will be undertaken by the Department of Finance (Finance) on behalf of the agency before the procurement of accommodation can commence.
3. The local area should be defined sufficiently narrowly that it focuses on those parties (businesses and individuals) that would be most affected by a relocation. The Australian Bureau of Statistics (ABS) definition of a Statistical Area level 2 (SA2) provides a useful benchmark for defining location and SA2s approximately align with town centres in the ACT. The ABS also produces statistics on employment and businesses at the SA2 level. This data can then be used to construct a suitable threshold test which should include consideration of the NCE's employment as a share of the local economy and the number of local businesses likely to be impacted by the relocation.
4. NCEs are required to complete the threshold test where a move would involve 10 or more percent of the local workforce in the SA2. This threshold test is also only required if the NCE wishes to test the market for accommodation options in different areas (i.e. outside the SA2 in which the employees are currently located).
5. A Request for Information or Expression of Interest may be undertaken prior to this consideration to identify options. However, there should be no approach to market to procure accommodation until the threshold test has been undertaken and advice received from Finance on whether a full local impact assessment is to be undertaken.
6. The full Local Impact Assessment (LIA) framework consists of three core components:
 - i. An analysis of the impacts on local businesses – consisting of an estimate of the number and type of businesses impacted and the potential loss in revenue to businesses in the SA2 based on an indicative average daily expenditure for employees.
 - ii. An analysis of the impacts on the road network and infrastructure – based on where the NCE's employees live to inform changes in travel patterns, and expert advice on how these changes will impact the road network, depending on a set of assumptions about alternate locations and the ensuing effect on travel patterns.

- iii. Other employee and community impacts based on community consultation where required to qualitatively assess the full implications of a relocation— allowing the community to express concerns over how the relocation may materially impact their standard of living, including in the case of employees greater commuting times.
7. This level of analysis balances the burden which undertaking an LIA imposes on the Commonwealth with the expectation of the community that the location of large NCEs be properly considered, given the implications for local businesses and residents.
8. Once the detailed local impact assessment has been completed by Finance it will be provided to the relevant NCE for comment and then referred to the Finance Minister for consideration.
9. The Finance Minister will consider the local impact assessment including options for mitigating negative impacts if relevant and may set conditions for the NCE in approaching the market for accommodation. This may mean that the accommodation options to be tested are confined to the NCE's current area or nearby locations.
10. It is not expected that such a detailed local impact assessment will be required in planning accommodation for the majority of NCEs. Where it is required, the assessment will be undertaken by Finance and cost recovered from the relevant NCE.

Strategic Planning Considerations

11. Local impact analysis does not take into account strategic planning considerations specifically, although these may be present in some aspects of the framework (such as transport considerations). For example, in the ACT, the National Capital Plan sets out a plan for the development of Canberra and the role of town centres. While such planning frameworks are important in decision-making, it is not the goal of LIA to provide advice on planning issues.

Defining a Locality

12. Local impact analysis is intended to focus on the impacts on those groups most affected by a relocation and requires a relatively narrow definition of locality. The economic impacts in particular are likely to be concentrated on businesses operating adjacent, or near to, the NCE. Transport impacts on the other hand may be spread throughout the road network, depending on potential relocation options. LIA focuses on the economic and community impacts at the existing location as it is these impacts that may render a move away from the current site undesirable.
13. This section provides a definition of locality for the three components of LIA:
 - i. The locality for the purposes of identifying the impacts on businesses impacted by the relocation of an NCE;
 - ii. The locality for the purposes of identifying the impacts on the transport network; and

- iii. The locality for the purposes of identifying the impacts on community.
14. The local impacts of each component may be seen in different geographical locations within a region. So as to provide clear guidance to NCEs on the scope of locality, objective definitions of locality are provided below for each component.

Location for the purpose of identifying impacts on business

15. The businesses most impacted by a relocation will be those which experience the largest fall in revenue. Clear data on spending patterns of individuals at their place of employment is not usually attainable and is likely to differ somewhat by location. However, the negative impacts are likely to be concentrated on retail and food businesses in the vicinity of the NCE.
16. The definition of 'vicinity' needs to be clearly defined when undertaking LIA and there are several possible definitions and data sources on which it could be based:
- a. A survey of NCE staff asking them to nominate the average amount they spend per day on local retail and food, nominating specific businesses or distance of travel to these businesses. These businesses would then be defined as the 'local economy';
 - b. A geographical definition of locality based on businesses within a fixed radius of the NCE; or
 - c. A definition based on an Australian Bureau of Statistics area.
17. A survey would provide a high level of detail on the costs to local businesses and identify more specifically which businesses will be impacted. However, the cost and time burden of such a survey may be high and may not capture all spending patterns of individuals. A strict geographic definition of locality based on a fixed radius is also likely to be problematic as the distance travelled by workers to local businesses will likely change by NCE and location.
18. A definition based on a clearly defined ABS region is therefore likely to be the best approach. The ABS defines Statistical Area levels at various degrees of granularity and publishes data at each level. For local impact analysis the SA2 is likely to be the best approximation for the local economy.
19. The ABS publishes data on employment and number of businesses by SA2 region. Using this definition therefore provides NCEs with a clear and objective definition of the local area and a source of data on which to base the LIA.

Location for the purpose of identifying impacts on transport

20. The impacts on the transport network are likely to be more dispersed and not concentrated on the area in which the NCE is currently located, depending on relocation options. For the purposes of LIA the locality for these impacts should be:
 - a. The roads which may experience the largest increase in congestion (if any) as a result of the change in travel patterns; and
 - b. The location(s) to which the NCE may potentially relocate, including increased congestion and reduced accessibility to parking.
 - c. This locality is therefore much broader than the local economic impacts and cannot be defined within a particular ABS statistical area. The scope of the analysis is therefore anywhere within the city or region in which the relocation may occur.

Location for the purpose of identifying impacts on the community

21. The definition of the community for LIA may include:
 - a. Local residents who use the facilities or businesses in the area within which the NCE is located;
 - b. Employees of the NCE who will experience possible costs (or benefits) as a result of the relocation; and
 - c. Other residents of the city or region who may be adversely affected by the relocation.
22. Rather than specifying a specific locality in which the community impacts are considered, it may be desirable to undertake community consultation, if required and allow concerned parties to self-identify as being part of the local community through their participation in such a process. Local businesses should not be excluded from these consultations, but given the negative impacts on them are explicitly captured in the economic component of LIA their views should not be additionally included in the community module. The module is intended to capture the concerns of those not otherwise captured in the LIA through the economic or transport components, should this be needed. The need for community consultation will be determined on a case by case basis by the Finance Minister.

Impacts – local businesses

23. The impacts on local businesses will be governed by the amount which employees currently spend in the vicinity of their employment. ABS survey data on spending on food outside the home includes evening and weekend spending so an approximation is

- required for these purposes. When considering expenditure that occurs at the place of work, a significant component will be 'lunch-time purchases' typically focused on the retail and food services industry. Other more ad-hoc purchases may be made but are likely to be difficult to predict and less concentrated on an NCE's employees.
24. Areas with established retail hubs, such as the town centres, have a wide range of retail and food outlets that allow them to capture higher levels of expenditure from employees working in the general vicinity. Therefore, the impacts of an NCE's relocation will depend both on the size of the NCE and the size of the surrounding business community which will determine how dispersed the impacts will be.
 25. The LIA should therefore focus on two key estimates:
 - a. The total annual loss in revenues to local businesses as a result of a reduction in local employment; and
 - b. The average loss in annual revenues across retail and food businesses to provide an indication of what the relocation is likely to mean for the viability of local businesses.
 26. The annual loss in revenues can be simply calculated as the daily spend per employee, multiplied by the number of employees, multiplied by 220 work days per year¹. Exact levels of spending by employees will vary by location (depending on the availability of nearby food and retail outlets), however, a range of between \$10 and \$30 a day appears reasonable. Where further research or localised information is able to elicit a more accurate value, it should be used in this place.
 27. Once the total reduction in overall expenditure is determined, further calculations should be made to indicate the approximate decline in revenue for relevant businesses within the locality. Retail trade and food service businesses are those most likely to be negatively impact by the loss of expenditure. Data on the number of these businesses within localities is provided in the ABS's survey, Counts on Australian Businesses (Cat. 81650).
 28. The average reduction in revenue for these businesses would then be determined by dividing the total reduction in expenditure by the relevant businesses within the locality. This method assumes expenditure is spread evenly across all businesses. In reality, expenditure would be distributed unevenly based on the demand for the products of the respective businesses. However, assuming an even distribution of facilities, an expedient calculation that approximates the average revenue impact across businesses.
 29. Further attention may be given to the number of businesses in the area with fewer than 19 employees, recognising that small businesses are less likely to be able to absorb a decline in revenue. Other metrics that indicate the health of the business environment

¹ This is based on 250 workdays adjusted for annual leave and sick leave.

in the region, such as vacancy rates or turnover, may be useful in supplementing the analysis.

30. The ABS publication Count of Australian Businesses, including entries and exits (Catalogue number 8165.0) provides data on businesses by sector by employment size for each SA2. This publication includes breakdowns of the number of businesses with fewer than 20 and fewer than 5 employees and can be used to indicate the proportion of small businesses in the food and retail sector in the region. The publication also includes business turnover data which can be used to indicate the significance of the average revenue lost per business relative to the average turnover of businesses in the SA2.
31. It is difficult to attribute threshold levels to the lost revenue per business at which point viability will be significantly reduced. This will depend on the size of businesses in the region as well as profit margins. Data on profit margins at the national level by industry is available from the ABS and indicates that these tend to be around 4-5% for retail businesses and 10-12% for food and accommodation services. Hence, relatively small reductions in revenue may have large impacts on viability of these businesses, particularly given a high proportion of fixed rent costs. Additional information on commercial vacancy or turnover rates can be used to shed additional light on the local business environment.

Worked example

32. Suppose an NCE employing 1,000 workers is considering relocating outside of a town centre. The SA2 in which the NCE is located has 100 retail stores and 50 food businesses. Based on the approach outlined above, it would be estimated that there would be a loss of revenue of between \$2.2 million and \$6.6 million in expenditure from the SA2 region annually. This would be equivalent to a revenue loss per business of between \$14,700 and \$44,000. This is based on the calculation below (for the lower end of the range).

$$\text{Lost Revenue} = 1,000 \times 220 \times \$10 = \$2.2 \text{ million}$$

33. Profits would fall by some amount less than this due to the cost of inputs saved, but this may significantly impact the viability of some businesses, particularly smaller businesses with low profit margins. The analysis could be supplemented with information about commercial vacancy and turnover rates in the area.

Indirect and Mitigating Effects

34. The framework estimates the direct loss in revenue to surrounding businesses, but does not attempt to estimate other indirect impacts such as the implications for employment or property prices in the region. This is likely to be difficult to do and be based on assumptions that are difficult to verify. Further, including indirect effects are unlikely to contribute significantly to the analysis. Therefore, analysis should be limited to calculation of the direct effects only, providing a degree of certainty and consistency across analyses.

35. Where there are known, or expected, circumstances that may mitigate the negative impacts on businesses, these should be identified in the LIA. These may include, for example:
 - i. A known, tenanted office development of a similar size to the relocating NCE that will mean employment in the area is not significantly reduced; or
 - ii. A reason to believe that the vacated building will be re-occupied by a new tenant or tenants.
36. Where mitigating effects are included in an LIA there needs to be strong support for doing so. The impacts on the local area should not be deemed to be potentially mitigated by speculative developments or alternative uses for the building.
37. The temporal aspects of any mitigating circumstances should also be made clear. The negative impacts on local businesses will occur immediately upon the NCE vacating the building, and local businesses with low profit margins may not remain viable for long in the absence of this cash flow. Circumstances such as medium to long term growth or development in the area should therefore not be considered as able to mitigate the negative impacts on these businesses.

Impacts – Transport and Infrastructure

38. A large NCE moving location will result in changed travel behaviour and travel patterns that may place increased pressure on existing transport networks and infrastructure. Pressure on transport infrastructure may be felt most acutely at the relocation destination, including on infrastructure such as traffic lights, pedestrian crossings and pathways or other supporting transport infrastructure.
39. The relocation of a sufficiently large workforce away from a local area may also increase congestion on roads along which the NCE employees will travel to the new location. This will particularly be the case where access to the location is limited to only a few main roads or where a bulk of the employees reside in the same location meaning that most of the pressure will be placed on a particular route.
40. There is no simple threshold test to determine when road congestion is likely to increase by a material amount. However, given that an LIA will only be triggered for relatively large NCEs, a transport impact assessment will likely be desirable in most cases.
41. NCEs are likely to be able to provide some useful data on the transport impacts of relocations:
 - a. They will have data on the residential location of their employees, which may be aggregated to a postcode level;
 - b. This could then be mapped out by indicative routes to provide an indication of the increased daily flow of vehicles along key main roads;

- c. In conjunction with road authority data on road capacity and current usage it may be possible for NCEs to conclude what this will mean for congestion on these routes.
42. This level of specific transport modelling will instead require specialist knowledge and access to detailed data. Further, the impacts on road infrastructure at the end location (pedestrian and parking requirements) will additionally need to be assessed by experts.
43. The relocation of a sufficiently large workforce away from a local area may decrease the viability of public transport provision to the area and disadvantage those who use public transport but are not relocating. Similarly, if there are insufficient public transport options available in the new location due to previous lack of demand, employees may choose to drive and thereby increase congestion. An LIA should contain some analysis of the public transport routes both to the current NCE site and to the site of the relocation. Where possible, an indication of what this may mean for total public transport usage should be drawn.

Impacts – Social and Community

44. Relocations may materially impact the welfare of members of the community not identified in either the impacts on the local economy or transport network identified above. These impacts may include:
 - i. A loss of a sense of community as the amount of activity in the area declines;
 - ii. Concerns around a loss of urban amenity if a significant proportion of the local business area is left vacant; and
 - iii. Impacts on the lifestyles of employees of the NCE who may face longer commute times and whose other activities (such as recreational, schooling or childcare) in the area may be interrupted.
45. There is unlikely to be a single framework that would adequately capture all of these concerns. Instead, community consultations may be undertaken in order to inform the analysis based on the views of those impacted. Consultations if required may be based on a discussion paper type approach where residents are able to submit written feedback on a relocation. A benefit of this approach is that it allows those impacted to self-identify as being part of the 'community' of concern and set out specifically how they will be impacted.
46. The community consultation could be a combination of directed and open-ended feedback. Concerns around a lost sense of community or amenity could be directed through questions such as:
 - i. How do you believe the relocation of this NCE will impact on the local sense of connection and community?
 - ii. What impacts would the vacant office have on the amenity in the area?
 - iii. In what other senses will the community be impacted by this relocation?

47. While open-ended questions such as 'how will this relocation affect you' or 'who do you believe will be most impacted by this relocation and why' will allow more general concerns to be expressed. These questions will not only allow the community to voice its concerns, but potentially refine the data-based analysis described above and ensure that no unforeseen or mitigating circumstances are absent from the analysis.
48. Much of the concern is likely to be expressed from business owners in the location who will be impacted through a loss of business. Community consultation should seek to elicit any residual impacts resulting from the relocation that are not otherwise captured in the analysis of business or transport impacts.

Impacts – Employees

49. The largest community impacts are likely to fall on the employees of the NCE who may face increased travel time and a dislocation of existing arrangements relating to, for example, child-care, schooling or recreational activities. While this will differ on a case-by-case basis, it is possible to approximate the opportunity cost of any increased travel time using standard approaches from transport economics.
50. These impacts can be estimated approximately using details on where they reside. The NCE will have information on the residential location of their employees and this can be used to estimate the additional travel times resulting from a relocation. Simple online mapping tools such as Google Maps can be used to estimate this time on a per-suburb or postcode level, and multiplying this time increment by employee numbers per location can provide a total estimate of changes in travel time.
51. This can be converted to a dollar amount using the after tax hourly wage to value the additional travel time. This could be based on the weighted average hourly wage for NCE employees. While only a rough estimate, this would provide a useful metric for measuring the opportunity cost of the additional travel time for NCE employees and is a standard approach in economic cost-benefit analysis.
52. For example, suppose an NCE of 1,000 employees relocates to a new site and it is estimated based on employee residential data that the average employee will experience a 30 minute increase in commuting time each day. The average wage of the employees is \$70,000 annually and this is scaled for on-costs of 28%². This equates to an average hourly cost of \$45 per employee. Over the 220 work-days per year, the average employee will travel for an additional 110 hours, for a total implicit time cost of \$4,950. Across the whole NCE this amounts to a total impost on its employees of just under \$5 million, or around 7% of its total wage bill.
53. It is difficult to provide a threshold level at which this cost would be considered excessive. However, it indicates that the inconvenience to employees can be relatively

² This is based on the recommended scaling factor applied by Austroads in its travel time valuation methodology.

simply approximated. Further, the significance of this monetised amount could be compared to any financial saving that may be realised from the relocation.

54. LIA should consider the region's ability to accommodate additional population and therefore higher levels of demand on transport and community services. A large quantity of employees moving into a small region could strain local infrastructure and housing supply. A professional transport infrastructure analysis should be undertaken.