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To: Leadership Team
CC: David White, Director, Property Centre of Expertise
From: Merv Dacre, Associate DCE, Organisational Solutions
Date: 25 June 2015
Security level: IN CONFIDENCE

National Office Accommodation: securing additional space to meet accommodation requirements

Purpose

1. This paper is seeking approval for the Ministry to secure additional temporary space as part of the National Office Accommodation Project to ensure all National Office based staff are accommodated when we exit Bowen Campus.
2. The paper provides an overview of the issue of current National Office occupancy levels now exceeding capacity at 56 The Terrace and the associated financial implications of securing additional temporary space.
3. The 56 The Terrace Project Steering Committee endorses the paper and supports the recommendation that the Ministry secure additional temporary space.
4. The paper was considered by the Finance and Portfolio Governance Committee on Friday 18 June which agreed that, subject to a number of changes being made, it should be referred to the Leadership Team for a decision. The Committee's amendments have been made.

Recommendations

5. It is recommended that you:
 - a) **acknowledge** that current National Office occupancy now exceeds the optimal capacity of 56 The Terrace;
 - b) **note** that of the following options that have been considered for addressing the immediate occupancy issue, option 4 is recommended:
 - I. Option 1 - Fitting in extra workstations at 56 The Terrace by doing away with most collaboration spaces, some meeting rooms and the 5% of desks that are reserved for incremental team growth or changes, with the attendant risk of significantly undermining the planned 56 The Terrace work environment;

- II. Option 2 - Introducing unallocated seating (shared desking) for all staff at 56 The Terrace in order to increase occupancy capacity, with attendant risks to staff satisfaction;
 - III. Option 3 - Redefining "National Office" by undertaking a considered assessment as to what functions are 'core' and need to be located at 56 The Terrace, and what functions could be accommodated in a Ministry Business Hub(s) located outside the Wellington CBD;
 - IV. Option 4 - Temporarily address the immediate occupancy issue by leasing up to 4,500m² of space as close as possible to 56 The Terrace for three years during which time a longer term solution can be developed;
- c) **approve** Option 4 in recommendation (b.iv) which will see the Ministry securing additional temporary space(s) to ensure all National Office staff are housed when we exit Bowen Campus between August and October 2016;
 - d) **note** that securing additional space may require capital funding in 2015/2016 and additional operating funding from 2015/2016 to 2018/2019 for occupancy costs;
 - e) **direct** the National Office Accommodation Team to identify up to 4,500m² of additional temporary accommodation close to 56 The Terrace and report back to the Finance and Portfolio Governance Committee with full details, including complete costings, for approval before any arrangement is entered into;
 - f) **direct** the National Office Accommodation project team to oversee work and report back to the Leadership Team on the design principles for the fitout of the temporary space(s), recommendations for how it will be used and managed, and advice on the groups/teams and/or business functions to be located in the temporary space(s);
 - g) **note** that the operating financial implications for the space will be considered as part of the integrated planning process for the 2016/2017 year; and
 - h) **note** that The Treasury and the Property Management Centre of Expertise have been advised of the Ministry's situation and support the proposed approach to manage the situation.

Context

6. The number of people (permanent staff and temporary project staff) working at National Office fluctuates as the Ministry's work programme evolves, and our organisational structure changes. Over the last two years the number of staff based at National Office has continued to grow and there is currently no indication that this growth is abating.
7. The issue of current National Office occupancy levels now exceeding capacity at 56 The Terrace has been raised by the Project Steering Committee and discussed with the Chief Executive and the Leadership Team. We estimate that the number of people working at National Office now exceeds the optimal capacity of 56 The Terrace by around 320 based on our current planning assumptions.
8. This has now become a major issue for the project and the Project Steering Committee is recommending that additional temporary office space be secured as soon as possible to ensure the Ministry is in the position to accommodate all staff currently based at National Office when we exit Bowen Campus.

Occupancy assumptions for 56 The Terrace

9. When the Ministry joined the Property Management Centre of Expertise Wellington Accommodation Project (WAP) in late 2011, the National Office occupancy was around 1,600 (1,465 staff on payroll plus around 150 temporary project staff). The WAP Business Case, which saw the Ministry leasing 19,654m² at 56 The Terrace providing 1,635 workstations, was approved by Cabinet in November 2012.
10. During the negotiation of the Development Agreement (DA) with Kiwi Property Limited (November 2012 to October 2013) National Office occupancy increased as the Ministry implemented a varied work programme and it was agreed that the Ministry would lease the entire building (excluding the ground floor lobby and retail spaces), bringing the potential occupancy level up to 1,907 workstations at a density of 12.8m² per workstation (well within the Property Management Centre of Expertise space density goal of 12-16m²). Best practice is that 5% of workstations should be vacant when we occupy the premises to allow for incremental team growth or rearranging around permanent or temporary changes. This means the optimal occupancy at 56 The Terrace is 1,812 people.

Current occupancy levels at National Office

11. Over the last three years, National Office occupancy has trended upwards. It is understood that the increase can primarily be attributed to:
 - new Ministry functions, such as Social Housing, CISO, EPMO, Investment Approach;
 - the establishment of two hosted functions, namely the Property Centre of Expertise (PMCoE) and the Children's Action Plan Directorate (CAP), and the incremental growth in both of these over time;
 - new projects and initiatives, such as Simplification, the Security Response Programme and the CYF Expert Advisory Panel; and
 - resource increases in existing groups to ensure certain Ministry and Government obligations can be met (e.g. POI, Historic Claims).
12. According to the Global Directory, at 31 May 2015 we had 1,809 permanent and short term staff at National Office, an increase of 344 since September 2011. However, because this figure excludes contractors, casuals, anyone on permanent variable hours and anyone not paid directly from the Ministry payroll, the most reliable measure we currently have for determining total current occupancy at National Office is through counting actively occupied desks¹. Regular counts commenced in November 2014 and are undertaken weekly. At 9 June 2015 there are 2,133 occupied workstations. This is 321 more than is available at 56 The Terrace.
13. It is important to note that these figures are based on our current numbers and do not account for any significant new recruitment by National Office managers, any structural changes or new Government Initiatives between now and October 2016 which would result in further occupancy pressures.

¹ A member of the 56TT Project Team undertakes a weekly floor walk to count occupied desks against current floor plans. Regular conversations are held with staff to determine which seats are being used.

Options for managing the issue

14. The following assumptions underpin the planning for our relocation to 56 The Terrace:

- everyone will have an allocated workstation on day one (i.e. there will be no desk sharing except the usual possibility of a visiting person using the desk of someone who is away);
- all Ministry staff currently located at Bowen Campus, including the 'hosted' functions of PMCoE and CAP, will be relocating; and
- there will be a 5% 'float' of vacant workstations (distributed across the floors) to allow for incremental team growth and change (i.e we will not fill every seat from day one).

15. Bearing these assumptions in mind, the following options have been considered to ensure our National Office occupancy requirements can be met by the time we begin to relocate in August 2016.

Option 1 - Fitting in extra workstations

16. While it would be possible to remove the collaboration spaces and some meeting rooms, and do away with the 5% vacant desk practice at 56 The Terrace in order to accommodate the extra 321 workstations we currently need, this approach is not recommended. It would change the planning assumption related to 5% vacant workstations and would significantly compromise the *Key Design Principles* underpinning the planned work environment at 56 The Terrace that were approved by LT in March 2014 and are fundamental to enabling the cross Ministry collaboration that is essential to achieving our strategic direction. The PMCoE Workplace Principles would also be compromised. The key principles that would be significantly compromised include:

- a variety of work settings that mean the whole building can potentially be a person's workplace;
- easy physical connections between individuals and teams to break down siloes;
- formal and informal communal spaces for all to use; and
- optimally efficient fixed furniture layouts that minimise hierarchy and mean people will move not furniture, helping to create a more physically agile workplace.

Option 2 - Introducing unallocated seating

17. Introducing unallocated seating arrangements (i.e. shared desking) for all staff would increase the building's occupancy capacity. This approach would change the planning assumption relating to everyone having an allocated workstation on day one.

18. Shared desking is a contentious way of working that has the potential to negatively impact staff satisfaction and requires a significant change management programme with a long lead in time to prepare staff. The risk to staff morale is increased if the key reason for introducing shared desking is simply to ensure staff can fit into the building on day one. While we should not rule out desk sharing at 56 The Terrace in

the future (the building has been designed to support this), this option for solving the immediate occupancy issue is not recommended.

Option 3 - Redefining "National Office"

19. Redefining our National Office by undertaking a considered assessment as to what functions are 'core' and need to be located at 56 The Terrace, and what functions could be accommodated in a Ministry Business Hub(s) located outside the Wellington CBD. This might include exploring the potential of an Auckland 'mini' National Office.
20. This approach would change the planning assumption relating to all staff currently located at Bowen Campus, including the hosted functions of PMCoE and CAP, being relocated to 56 The Terrace. Redefining our "National Office" is a significant piece of work which requires in-depth consultation with senior leaders, staff and other key stakeholders, as well as detailed planning to determine suitable office locations. Relocating current national office staff outside of the CBD would have HR implications and would require a carefully considered change management strategy which will take more time to develop and implement than we have available between now and the National Office move starting in August 2016. This approach is not recommended for resolving the immediate occupancy issue.

Proposed approach

Option 4 - Temporarily address the immediate occupancy issue then develop a longer term solution

Stage 1 – temporary response (start immediately)

21. The recommended approach for addressing the immediate occupancy issue for 56 The Terrace is to secure additional temporary space totalling up to 4,500m² (equivalent to six floors of Tower Block) as close as possible to 56 the Terrace. Note that we may not be able to secure a single tenancy and may need to secure spaces across several buildings. It remains unclear at this point as to how much of this demand for space is temporary and will cease as current project work ends. For this reason we propose that the additional space(s) be leased for an initial term of only three years.
22. There are several options for how the space(s) could be used, including the option of accommodating a Ministry "Programme and Project Hub" where we would be able to bring together project teams (accounting for around 350 seats) into one workplace which could be set up to support more agile and flexible ways of working. Being in one space means teams would be able to share ideas, spaces and potentially resources.
23. It is proposed that leasing and fitout of additional space be governed by the 56 The Terrace Project Steering Committee and managed as part of the wider National Office Accommodation Programme of work. This will enable us to use our currently contracted service providers as needed and will ensure consistency in approach to lease terms and conditions, and fitout of the space(s).
24. We have sought advice from PMCoE and are currently working with them on an urgent basis to identify appropriate available government spaces that are sufficient to meet our estimated space requirement within our required timeframe. If no suitable spaces are able to be secured through this approach PMCoE supports the

Ministry going to the market to lease additional space(s) on a temporary and flexible basis while longer term options around our National Office accommodation requirements are being explored.

Stage 2 – longer term options for our National Office accommodation (start late 2016)

25. Once the relocations to 56 The Terrace and the new space(s) are complete, and we have had the opportunity to understand how our people are using the new workplaces, it is proposed that we commence work to identify the longer term options for managing our National Office accommodation requirements, in particular. These options may include:

- redefining “National Office” to relocate some teams into a new site outside the Wellington CBD;
- supporting flexible ways of working (such as unallocated seating) with some teams at 56 The Terrace;
- increasing the Ministry’s accommodation requirements for the Wellington Accommodation Project Two and/or Three being led by PMCoE (the Ministry currently has its functions located at Kordia House (2459m²) and Freemason House (1564m²) included);
- working with PMCoE to establish an All of Government “Programme and Project Hub” where space could also be used by other agencies on a ‘user pays’ basis.

Financial Implications

26. Taking on additional space requires Capital and Operational Funding. The amount of funding required will depend on the cost and size of the space the Ministry is able to secure, the leasing option negotiated and the level of fitout works required, including the Ministry’s expectations around how the space will be designed and managed.

Estimated capital funding

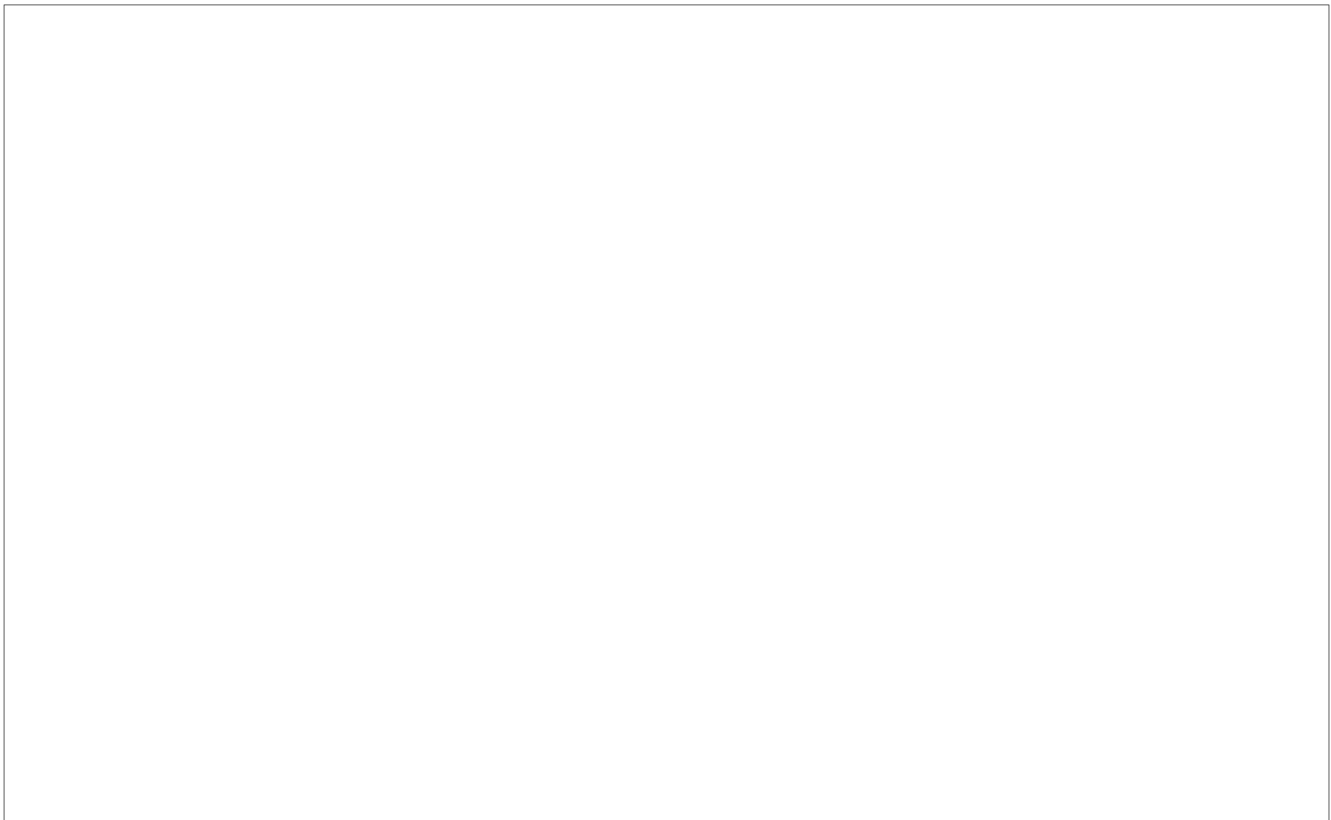
27. A worst case estimate of the capital cost of the proposed approach is \$5.28 million. This is based on based on 4,500m² needing significant fitout works (such as cabling, new kitchen areas, meeting rooms etc) at a cost of \$1,173 per m². It is possible, but not certain, that space will be found that does not require such extensive fitout works.

28. The 56TT Project Budget is currently forecasting an under spend of \$1.4 million and there is an expectation that we will not need to utilise the full construction contingency amount of \$1.6 million. Given this, it is anticipated that we will be able to fund the additional capital costs from the 56TT budget allocation. However, if this is not possible due to very extensive work being needed to make the space(s) fit for purpose additional capital funding will need to be sought in 2015/2016. This has been signalled as a risk in the paper to the Leadership Team entitled *Endorsement of the Capital Plan for 2015/2016*.

29. We have met with the Treasury and PMCoE to discuss the Ministry’s requirement to secure additional temporary space to accommodate its National Office. The Treasury has confirmed that as the space is required on a temporary basis, and the associated costs are within the Ministry’s delegations and will be met from within current baselines there is no need to seek approval from Cabinet.

Estimated operating costs

30. Based on current market rates for the Wellington CBD the rental rate for additional space could be circa \$400m². On this basis, the occupancy cost for an additional 4,500m² of space would be around \$3.2 million per annum, including costs such as electricity, maintenance, and depreciation. These costs will be incurred from 2016/2017, putting additional pressure on the occupancy budget and the Ministry's overall financial position.
31. The following compares the 2015/2016 occupancy costs at Bowen Campus and the projected costs for 56 The Terrace plus the additional new space(s) from 2016/2017 to 2018/2019.



Next Steps

Securing new space

32. It is important that we secure space(s) as soon as possible to ensure any necessary refurbishment or fitout works are completed in time for us to relocate all staff from 1 August 2016. The Ministry is required to fully vacate the Bowen Campus before 31 October 2016.
33. It is proposed that we immediately begin an appropriate procurement process to identify suitable space(s) and potential leasing arrangements. We are currently working with PMCoE to identify potential Government spaces, and are also developing the necessary Request for Proposal documentation should we need to go to market to find space.

34. Once space(s) are identified we will be able to work with our quantity surveyor and the relevant business groups to develop detailed capital and operating costings.
35. We will report back to the Finance and Portfolio Governance Committee on the proposed commercial terms of the lease arrangements and the associated costs for the temporary space(s) before any arrangement is entered into.

Determining how the temporary space will be used

36. The National Office Accommodation project team has started work to define the parameters around the design principles for the fitout of the temporary space(s), including what it will look like, and how it will be used and managed. The groups/teams and/or business functions that will be located in the temporary space(s) will also need to be identified.
37. This work will be overseen by the 56 The Terrace Project Steering Committee and will involve consultation with relevant business groups and other agencies, as well as engagement with stakeholders including relevant Ministers, the Leadership Team and the PSA. We will seek Leadership Team approval in respect of recommendations arising from this piece of work.

Communications

38. The National Office Accommodation Project team will work with the CE's Office and the Communications team to develop a plan for engaging with key stakeholders on this issue, the proposed approach to resolving it and, once known, the recommended solution. The plan will also identify when it will be timely to share the issue and solution with all National Office staff.