



Report

Date: 11 March 2016

Security Level: IN CONFIDENCE

To: Hon Anne Tolley, Minister for Social Development

National Office Accommodation Project – overview

Purpose of the report

- 1 This report provides you with an overview of the Ministry's National Office Accommodation Project.

Recommended actions

It is recommended that you:

- 1 **Note** the content of this report.

YES / NO

- 2 **Agree** to send a copy of the report to the Associate Minister for Social Development

YES / NO

Merv Dacre
Associate Deputy Chief Executive
Organisational Solutions

11-03-2016

Date

Hon Anne Tolley
Minister for Social Development

16-3-16.

Date

Background

1. In November 2012 Cabinet approved recommendations made by the Property Management Centre of Expertise (PMCoE) allocating various accommodation solutions to four agencies requiring new accommodation in Wellington. The Ministry was one of those agencies and was allocated 56 The Terrace for its future National Office accommodation.
2. The Ministry was included in the PMCoE proposal approved by Cabinet because its Bowen Campus leases could not be extended long term due to the buildings being at the end of their serviceable life (e.g. leaking, poor heating and cooling systems, frequent lift outages, plumbing issues, corroded window frames, etc) and the landlord needing them to be vacated to undertake necessary redevelopment work.
3. 56 The Terrace is also an old building but was selected by PMCoE as a suitable accommodation solution for the Ministry on the basis of the owner's plans to refurbish it to bring it up to a suitable standard for a modern office environment. The scope and detail of the refurbishment was negotiated between the building owner and the Ministry with support from specialist tenant and legal advisors, and PMCoE. The refurbishment agreement is recorded in a Development Agreement. The lease terms and conditions are recorded separately in the Lease.
4. In November 2013, the Minister of Finance and the then Minister for Social Development approved the final commercial terms, and delegated authority to the Chief Executive to sign the Development Agreement and Deeds of Lease negotiated for 56 The Terrace.

Financial Implications

Future cost of accommodation

5. The Ministry currently pays for the 29,392m² it leases at Bowen Campus. We will be leasing around 24,200m² at 56 The Terrace at a gross rent rate
6. The move will see the Ministry's National Office occupancy costs (lease and associated operating costs) increase by around \$4.60 million per year as a consequence of the Ministry shifting from its current unusually low rent rate to one that reflects the market rate for a modern office environment. This impact has been inevitable for the Ministry for some years due to the unusually low rent rate at Bowen Campus being unsustainable.

Project cost

7. In approving the commercial terms for 56 The Terrace Joint Ministers also approved the Ministry's budget for the project of \$37.69 million in capital and \$1.60 million in operating expenses, all of which has been funded from within existing baselines. The project is on track and we are currently forecasting an underspend.

Governance and decision making

8. The project has robust governance processes in place. It is overseen by a Project Steering Committee comprising of senior managers from across the Ministry. Regular updates are provided to the Ministry's Leadership Team, with endorsement of key

decisions being sought from the Leadership Team where appropriate. We also have in place an Independent Quality Assurance Process, with KPMG undertaking two "health checks" of the project since it commenced.

9. The decision making processes for the project are guided by the following considerations:

- Ensuring materials, fittings and fixtures used in the fitout are fit-for-purpose
- Ensuring materials, fitting and fixtures used in the fitout are durable and will last the length of the initial lease term of 18 years
- Providing staff with the right tools to do their work
- Creating a modern working environment that also allows for efficient facilities management
- Undertaking competitive procurement processes, where appropriate
- Where appropriate for larger spend areas undertaking exercises to substitute materials, and identify less expensive methods for doing things without removing functionality
- Being a good employer and attracting good staff
- Investing in our staff.

Main cost areas

10. The main Ministry cost areas for the project are outlined below.

Building Circulation components

11. As part of the refurbishment the Ministry is paying for three building circulation components, namely a public shuttle lift to provide universal access to the reception area which is located on level one of the building, a public access stair to the public meeting spaces on levels one and two, and an interconnecting stair from levels 9 to 18. The total cost of these items is \$2.124 million.

Interconnecting stair

12. The building will have an interconnecting stair. The open staircase spans from level 3 to level 18 and provides additional access for staff to facilities such as meeting rooms, hub spaces and AV equipment, that have been spread vertically through the building.

13. The stair will also help to reduce pressure on the buildings lifts by making it easier for staff to walk between floor thus 'freeing' up the lifts for those that need to travel longer distances. The stair will also assist with helping to break down business group silos by providing opportunities for spontaneous interactions.

14. As part of the development agreement the landlord is meeting the cost of the stair from level 3 to 8 while the Ministry is meeting the cost of the stair from level 9 to 18. The estimated cost of the Ministry's section of the stair is \$1.588 mil (the final cost will be known once construction is completed).

Building Services

15. The refurbishment requires the provision of standard in-ceiling services such as lighting, air conditioning units, sprinklers, plumbing, and electrical services in the Ministry's work space.
16. The total cost of these services, including the specialist design work is \$5.674 million.

Tenant Infrastructure

17. Tenant infrastructure covers the costs associated with the construction and provision of the key physical requirements for Ministry's workspace. This includes staff kitchens, walls where needed, IT cabling, a server room, security systems and gates, AV technology, supplementary lighting, reception area, public meeting spaces, and public toilets.
18. The total estimated cost of these items is \$12.244 million with final costs being known once construction is completed.

Acoustic treatment in the reception area

19. The Ministry's reception area is located on level one and will be the primary place for staff to meet with our external stakeholders. It is an open floor incorporating the reception area which will greet and register around 800 visitors per week, the visitor waiting area and informal meeting spaces, as well as the main auditorium and meeting rooms for meetings with external stakeholders.
20. The building design is such that this area has a large 5m x 5m ceiling void on the ground floor where the landlord has several retail tenancies. It creates an opening into our reception area, with a height of approximately 6m from the lobby floor to the ceiling on level one.
21. Given this, a suitable reception ceiling was designed to meet the several technical requirements including the minimum noise reduction threshold determined by our acoustic engineers (that is a minimum Noise Reduction Coefficient (NRC) of 0.85), being structurally sound in the event of a moderate earthquake (given 6m height), and being made of sufficiently durable materials to minimise maintenance throughout the lease term (a minimum of 18 years).
22. The Ministry considered four ceiling options, namely:
 - Kauri root shaped Melteca fins (which aligns with the rest of the fitout) covering highly absorptive acoustic blanket with NRC of 0.9 (cost \$74,025) – deemed suitable as it meets the acoustic threshold, will not easily damage in seismic event and will require very little maintenance over the 18 year lease period.
 - Fibrous Plaster fins covering highly absorptive acoustic blanket with NRC of 0.9 (cost \$66,500) – deemed not suitable as would require repair work following a seismic event, and would require repainting during the 18 year lease period.
 - Suspended Ceiling tile with NRC of 0.7 (cost \$20,000) – deemed not suitable as does not meet acoustic threshold, tiles could fall in seismic event and would require maintenance over the 18 year lease period.

- Perforated Plasterboard with NRC of 0.6 (cost \$35,000) - deemed not suitable as does not meet acoustic threshold, would suffer damage in seismic event, and would require repainting during the 18 year lease period.

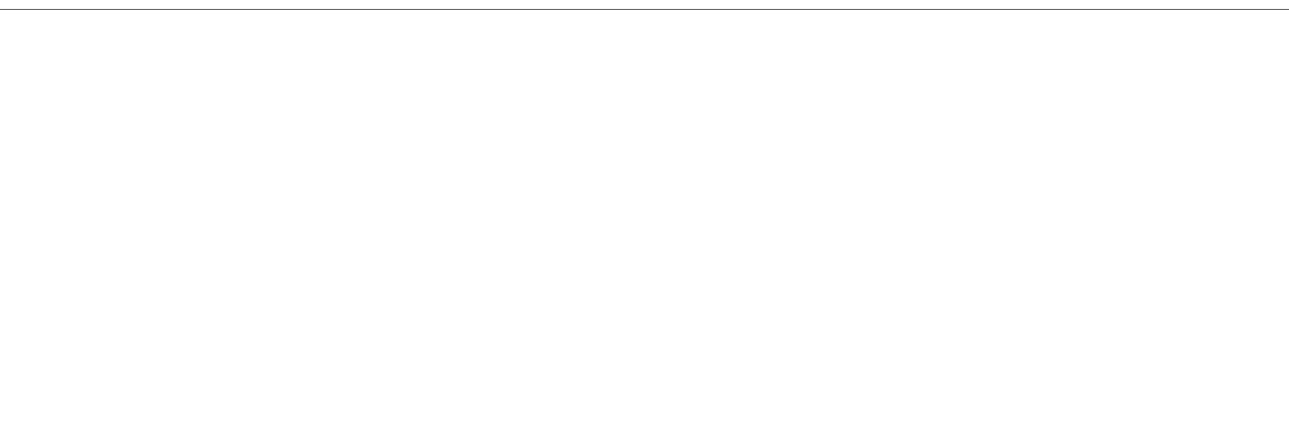
Commissioning of a carving from Taranaki Whanui ki te Upoko o te Ika

23. A Iwi liaison Working Group of comprising of a Taranaki Whanui ki te Upoko o te Ika representative, the Kaiwhakarite Maori for Parliamentary Services and Ministry staff has been convened to support the project. Initiatives/activities we are exploring with the iwi include:

- a staff education programme (which may include a series of seminars around the history and stories of the Wellington area);
- blessings of Bowen Campus and 56 The Terrace;
- supporting the relocation of key pieces of Maori artwork from Bowen Campus (e.g. the Chief Executive cloak); and
- commissioning a carving by the local iwi artist for display in the public space.

24. A carving has been commissioned for installation in the reception area. The commissioning recognises the relationship the iwi has with the land on which 56 The Terrace is located, the present day relationship we have established with the iwi and the commitment of each party to foster the relationship into the future.

25. The carving, which is titled "*Whare Tangata XX - "House of Humankind"*" will be created by iwi appointed artist, [redacted]. It comprises of carvings of five iconic female figures [redacted] grouped together on a carved base. The pieces can be displayed together or separately in the public space. The total fixed price for design, materials, labour, transport and installation of the six carvings is \$30,000.



Construction contingency

28. The project budget includes \$1.445 million for construction contingency. It is typical for building projects to hold a contingency amount for any unexpected costs.

Soft fitout

29. The soft fitout includes furniture (desks, chairs, meeting tables, public meeting rooms, storage items and collaboration furniture) and other minor fixtures such as sanitary items, kitchen cutlery and crockery, small appliances, and health and safety equipment. The total budget for these items is \$8.098 million.
30. Some of these soft fitout items will be purchased new for 56 The Terrace and some are being recycled from Bowen Campus where appropriate. A stocktake has been carried for the furniture assets at Bowen Campus. As part of this an assessment of the potential costs/resale value against the options of reuse, sell, recycle, dispose and donate has been undertaken and tentative plans have been developed. It should be noted that these plans are subject to market demand to purchase or receive donations for the type of furniture.
31. We currently have a request out to the market via GETs to source a specialist supplier who can assist with this work.
32. The purchase of furniture for 56 The Terrace is being made under the PMCoE Common Capability Office Furniture and Related Services Panel of Suppliers Contract. The Ministry has undertaken a comprehensive secondary procurement process to ensure we get best value for money in relation to furniture purchases. We are currently working through the selection process and are trialling various options with staff.

Relocation

33. The relocation will take place from mid-August to mid-October and involves shifting 2,150 staff, specialist IT equipment, staff payroll files, sensitive client files, staff resources, health and safety equipment, and furniture.
34. We currently have a Request for Proposal out on GETS and with the procurement process being completed in late May 2016.

Expert advisory services

35. Given the nature of the project the Ministry has required the support of specialist external services. These include the External Consultant Team (legal advisors, construction project manager, architect, service engineers, quantity surveyor, relocation project manager and tenant advisor) as well as other specialist services including assurance services, acoustic advice, fire engineering, and change management advice.
36. The budget for these services is \$3.891 million over four years.

Internal Project Team

37. The Ministry has a small internal project team comprising of a Programme Manager, Project Co-ordinator, Senior Advisor, IT Lead and Business Analyst.

Securing of additional space

38. The Ministry requires additional temporary space for 320 staff. 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 – the increase can primarily be attributed to:
- new Ministry functions, such as Social Housing, CISO, EPMO, Investment Approach;
 - the establishment of the Children's Action Plan Directorate (CAP), and the growth in personnel in this area
 - new projects and initiatives, such as Simplification, the Security Response Programme and the CYF Expert Advisory Panel.
39. Suitable space at 89 The Terrace has been secured and we are currently working with the Property Management Centre of Expertise to negotiate the lease terms. The space is currently within the all of government portfolio so will not increase the amount of space leased by the Crown.
40. As the Ministry will almost be doubling the occupancy of the building a minor level of construction works will be required to ensure the space, IT infrastructure and facilities can cater for the increase in people.
41. As the Project is currently forecasting an underspend we will be able to fund the additional capital costs associated with 89 The Terrace from the approved Project budget allocation.