



Report

Date: 14 August 2015

Security Level: IN CONFIDENCE

To: Hon Anne Tolley, Minister for Social Development

56 The Terrace – Overview

Purpose of the report

- 1 This report provides you with an overview of the Ministry's Head Office Accommodation Project (also known as 56 The Terrace).

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

Date

Hon Anne Tolley
Minister for Social Development

Date

Background

1. The final expiry for the Ministry's leases at Bowen Campus is 31 March 2017. There is no possibility of extending this lease as the buildings are at the end of their commercial life and the landlord needs them to be vacated to undertake redevelopment work. Given this the Ministry, along with four other agencies, participated in the Wellington Accommodation Project Business Case. This was led by the Property Management Centre of Expertise (PMCoE) in 2012.
2. A preferred solution was approved by Cabinet in November 2012.
3. *56 The Terrace* required a significant refurbishment by its owner Kiwi Property Group Limited (Kiwi). The Ministry was supported by Wareham Cameron (our Tenant Advisor), Kensington Swan (Legal Advisors) and the PMCoE to negotiate the Development Agreement (DA) and Deeds of Lease for the building.
4. During the negotiation of the DA National Office staff numbers increased as we were delegated responsibility for some additional Ministry functions and initiatives. For that reason, it was agreed that the Ministry would lease the entire building (excluding the ground floor lobby and retail spaces). This raised the potential occupancy to 1,907 workstations at a density of 12.8m² per workstation. The PMCoE space density goal is 12-16m².
5. 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 approve the DA and Deeds of Lease negotiated for 56 The Terrace.
6. The move to 56 The Terrace will see the Ministry's occupancy costs (lease and associated operating costs) for our National Office increase by around \$4.60 million per year.
7. An increase in our occupancy costs was inevitable, whether we move to 56 The Terrace or chose to return to the refurbished Bowen Campus buildings. The low rent we currently pay at Bowen Campus, reflects the quality of the accommodation, and the age of the buildings.

Budget

8. Under the DA, costs for the construction work will be met by both the landlord and the Ministry.
9. In approving the commercial terms for 56 The Terrace the Joint Ministers also approved the Ministry's Capital budget of \$37.69 million. In addition, \$1.60 million for operating expenses associated with the relocation costs and legal advice was approved.
10. The project budget was sourced from within the Ministry's current baselines. As at the end of July 2015, the project budget is currently on track and we are predicting a small underspend.

The Ministry's Fitout

11. 56 The Terrace will provide the Ministry's National Office with a modern work environment that supports the culture the Ministry wants to achieve. This is also consistent with the PMCoE Workplace Principles.
12. The fitout design was supported by a comprehensive staff engagement programme. This included functional briefings with a range of stakeholders including specialist teams,

accessibility representatives, health and safety representatives, cultural groups. Findings from these sessions were fed into the final design.

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

- Ensuring materials, fittings and fixtures are fit-for-purpose, and not flashy
- Ensuring materials, fitting and fixtures are durable and will last the length of the initial lease term
- 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
- Undertaking value engineering exercises, where appropriate, for the larger spend areas
- Being good employers and attracting good staff
- Investing in our staff.

14. The following provides high-level overview of the key milestones to date:

Date	Milestone
November 2013	<ul style="list-style-type: none"> • Final Commercial Terms agreed by Minister of Finance and Minister for Social Development • Development Agreement signed by the Ministry and Kiwi Property Limited
March 2014	<ul style="list-style-type: none"> • MSD fitout key design principles approved
May 2014	<ul style="list-style-type: none"> • MSD Fitout Frozen layouts approved
August 2014	<ul style="list-style-type: none"> • Look and feel approved
September 2014	<ul style="list-style-type: none"> • Independent Quality Assurance undertaken by KPMG
December	<ul style="list-style-type: none"> • Detailed design approved
February 2015	<ul style="list-style-type: none"> • Base Build Variation and Main Contract Hard Fitout prices approved • Appointment of LT McGuinness Ltd as Sub Divisional Hard Fitout Contractor
April 2015	<ul style="list-style-type: none"> • Sub Divisional Hard Fitout works commence
August 2015	<ul style="list-style-type: none"> • Fitout works completed on levels 4 to 7. Works well underway on levels 8 to 11.

15. The project has in place robust governance processes. It is overseen by a Project Steering Committee comprising of senior managers from across the Ministry, and regular updates are provided to the Ministry's Leadership Team. We also have in place Independent Quality Process, with KPMG undertaking a programme of healthchecks at various stages throughout the project.

Securing of additional space

16. 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. 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.
17. Staffing numbers now exceed the optimal capacity of 56 The Terrace by around 300 people. To ensure all staff are accommodated when the Ministry is required to exit from Bowen Campus at the end of October 2016, the Ministry will be seeking temporary additional space of up to 4,500m². We are currently working with PMCoE to identify space within the Government Property Portfolio.
 18. 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
 19. As the 56 The Terrace Project Budget is currently forecasting an under spend it is anticipated that we will be able to fund the additional capital costs associated with the additional space from the 56 The Terrace 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 from MSD's 2015/2016 Capital Budget.

File ref: REP/15/8/851

Appendix A – Key Points of Development Agreement and draft Deed of Lease

Lease Terms	
Space occupied	24,255m ² at 12.8m ² per work point. Comprising of 24,029m ² of office space (including the level 8 balconies), a ground floor service operation area and around 152m ² of bike and general storage.
Carparks	
Rental costs	<ul style="list-style-type: none"> Gross rent – the average premise rent <input type="text"/> This equates to <input type="text"/> million plus GST for Year 1 (as at July 2016) Effective rent - <input type="text"/> (this is the gross rent taking into account the lease incentive agreed with the landlord).
Outgoings	The lease has been documented as a gross lease whereby the Ministry will only be responsible for its own utility charges and the after-hours running of the air conditioning central plant. The Ministry will be responsible for the cost utilities such as electricity, water, telephone and other communications charges, cleaning, hygiene supplies and the collection and recycling of waste.
Lease Incentive	
Rent review	
Sublease and Assignment	The Crown has the automatic right to assign its leases to another Crown organisation without the Landlord's consent. This provides flexibility for the Government to meet changing requirements over time.
Building Performance Specifications	<p>The Landlord will provide:</p> <ul style="list-style-type: none"> - New façade with high performance glazing system - New air conditioning system - Structural upgrade to a minimum of 90% the New Building Standard (NBS) - On-floor interconnecting stairs (levels 3 – 8) - Lobby redesign - Lift refurbishment - New cyclist and storage facilities - Upgraded toilet and shower facilities - New ceilings, lights and carpets.