GOVERNMENT
Property
Management
CENTRE of EXPERTISE

Single Stage Business Case

Wellington Office Accommodation Strategy

Prepared by:	Wellington Office Accommodation Project Team
Prepared for:	Property Management Centre of Expertise
Date:	7 November 2012
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Document Review

Document Sign-off

Role	Name	Sign-off Date
Project Manager	[redacted]	7/11/12
Business Owner	David White	7/11/12.
Senior Responsible Owner/ Project Executive	Marc Warner	8/11/12

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Glossary

Term	Definition
CBD	Central Business District
[redacted]	
FTE	Full-Time Equivalent – equates to number of full-time equivalent employees and is defined as working a full normal 40 hour week
FY	Financial Year – State Services Financial Year generally 1 July – 30 June
ICT	Information and Communications Technology
m^2	Metres squared
[redacted]	
MoE	Ministry of Education (national office in Wellington)
[redacted]	
PMCoE	Property Management Centre of Expertise – Business unit within the Ministry of Social Development responsible for implementing Functional Leadership Property.
RFP	Request for Proposal – describes the process of going to market to source accommodation options for participating agencies
WCBD	Wellington Central Business District

Executive Summary

Proposal

1. This paper seeks approval of the attached business case for Wellington head office accommodation for five large Ministries (Ministries of [redacted] Education; [redacted] and to direct the Chief Executive of the [redacted] (as Functional Leader for property), to negotiate the development agreements and deeds of lease.

2. It is proposed that the Minister of Finance and the responsible Ministers for these agencies [redacted] be delegated the authority to agree to the final commercial terms following the negotiation phase. [redacted] would seek internal approval for their preferred option, while keeping their Minister and the Functional leader for property informed.

Background

3. Office accommodation leases in the Wellington Central Business District (WCBD) are due to expire for the Ministries of [redacted] Education, [redacted] (hereinafter referred to as the participating agencies). This business case has been prepared following a Cabinet directive that the Functional Leader Property lead a co-ordinated procurement process (including business case) for those agencies currently seeking head office accommodation.[1]

4. Historically, State Services agencies have undertaken head office accommodation procurement and business case processes in a predominantly siloed manner. This has resulted in inefficiencies and less than optimal effectiveness for the Crown's property portfolio, including:

   - duplication of cost and effort (for both Crown agencies and property owners);
   - competition for a limited pool of suitable office accommodation available at the time, which drives the cost up;
   - difficulty in identifying and optimising surplus space already leased by the State Services in order to reduce costs;
   - no coordination of agencies' locations within the WCBD to enhance business outputs;
   - difficulty in leveraging the Crown's economies of scale in the procurement of property-related goods and services;
   - agencies adopting property footprints that are over best practice benchmarks[2]; and
   - a property portfolio that is less flexible and responsive to the changing needs of government.

5. In order to address this, the Government firstly established the PMCoE in April 2011.[3] PMCoE was tasked with driving efficiency and effectiveness gains in property

[1] [SEC Min (12) 10/12] Accelerating Functional Leadership For Better Public Services dated 26 July 2012

[2] Report on the Crown Office Estate (as at 30 June 2011) - On average, State Services FTEs occupy the equivalent of 20.5 m^2 of office accommodation in Wellington, as compared with the expectations of Cabinet of between 12-16 m^2

[3] Cab Min (11) 14/14 Establishment of Property Management Centre of Expertise dated 4 April 2011

management across Departments and Crown Agents by providing leadership, guidance and support, monitoring and brokerage, but without changing the accountability for decision making from individual agencies.

6. Subsequently, the Government's Better Public Services Functional Leadership initiative, approved in July 2012, strengthened the mandate of PMCoE by appointing the Chief Executive of the Ministry of Social Development as the Functional Leader for property across the State Services. This enabled PMCoE to integrate the existing business case and procurement processes of the five agencies into a single process in order to drive efficiency and effectiveness gains for the Crown.

7. In Wellington, the Crown occupies 520,000m^2 of office accommodation at an average of 20.5m^2 per person, costing approximately $180m per annum to house approximately 25,400 staff. With 160,000m^2 expiring in Wellington over the next three years, there is the potential to reduce this footprint by 35,000m^2 (to 16m^2 per person) which will save around $12 million per annum. If this can be reduced further to 14m^2 per person, this will save an additional $5 million per annum.[4]

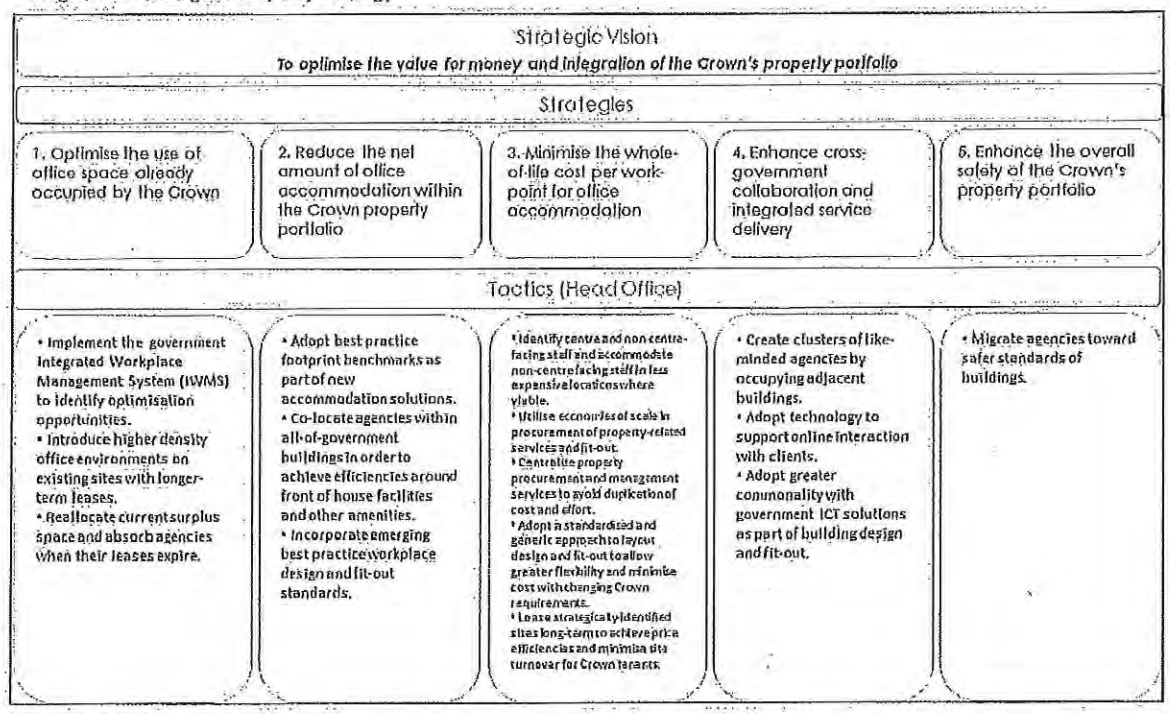
8. An on-going issue that the State Services faces with office accommodation is how short to medium term organisational change creates tension against relatively inflexible long term property contracts. Lease terms contracted by the Crown for head office accommodation are typically 9 or 12 years for the initial term, often in order to allow developers to secure finance for any capital works on buildings. While agencies provision for anticipated changes, it is common for policy changes, restructures or major projects to significantly change the profile of the agency's property footprint. This either creates surplus space within existing buildings that agencies find difficult to sub-let, or means they need to take on additional space under short-term arrangements.

9. The seismic events in Christchurch have driven an increased demand in Wellington for buildings that offer an appropriate level of seismic resilience. The Crown, as part of this demand, is already transitioning away from buildings that are considered earthquake prone. The result of this is a corresponding increase in demand for buildings offering a higher level of seismic resilience and an increase in insurance costs, particularly for less resilient buildings. Compounding this issue is the fact that the Crown and the private market are competing for the limited supply of these buildings.

10. In order to mitigate rising property-related costs within a fiscally constrained environment, greater value for money needs to be achieved from the Crown's property portfolio. A strategy was developed to reduce the amount and cost of accommodation occupied by the Crown in Wellington, and is summarised in the following diagram:

[4] Cab Min (12) 35/4B dated 1 October 2012

Diagram 1: Wellington Property Strategy



11. A fundamental component of the strategy will be the way in which technology can facilitate reductions in the footprint required by agencies, thus reducing their property costs. This can be through incorporating new office furniture technologies that support higher densities within existing floor plates, or by adopting ICT solutions that enhance the mobility and flexibility of the working environment. PMCoE will continue to integrate with the Functional Lead for ICT (Office of the Government Chief Information Officer) in order to drive these efficiencies during implementation.

12. The Crown's significant presence in Wellington property market (40% of the office accommodation is leased by government)[5] means it has the potential ability to influence the demand and supply of that market. Through reducing the overall space required within the CBD, the Crown is effectively creating an over-supply of office accommodation which should lead to rental prices flattening out over the medium term as the market adjusts on a like-for-like basis. Additionally, the Crown can leverage its economies of scale through the procurement of property-related goods and services to gain greater efficiencies. The Functional Lead for Procurement (MBIE) has been consulted in this business case process in order to support any further opportunities that participating agencies can adopt in order to drive greater economies of scale.

[5] CBRE Market Outlook 2012 Wellington Report dated August 2012

Investment Objectives

13. PMCoE identified seven investment objectives for the business case. These are:

- To reduce the amount of office accommodation leased by participating agencies in the Wellington region
- To minimise the cost per work point for office accommodation leased by participating agencies in the Wellington region
- To optimise the use of office space leased by participating agencies in Wellington
- To improve the flexibility and responsiveness of the Crown's property portfolio
- Utilise the property solution to better enable agency, sector and AoG business outputs
- To improve and maintain the building safety and quality across the participating agencies
- To better facilitate the effectiveness and increase the efficiencies from common property related procurement and ICT functions delivered as part of the property solution.

Approach

14. Each of the participating agencies was at varying stages of their business case and procurement processes when the decision was made to combine these under a single PMCoE-led process. The agencies were at the following stages:

a. [redacted]

b. MoE: Already had Cabinet approval[7] to negotiate with its preferred supplier and it was agreed to allow this negotiation to continue, but with a caveat that this building would be included with the PMCoE market short-list from which collective solutions would be developed from.

c. [redacted]

d.

15. Due to the significant work that had previously been undertaken by participating agencies, and also the concurrent development of the Functional Leadership Cabinet

[6] Cab Min (12) 12/3A dated April 2012

[7] Cabinet Social Policy Committee SOC Min (12) 4/2 dated 29 March 2012

[8] Cab Min (12) 8/14

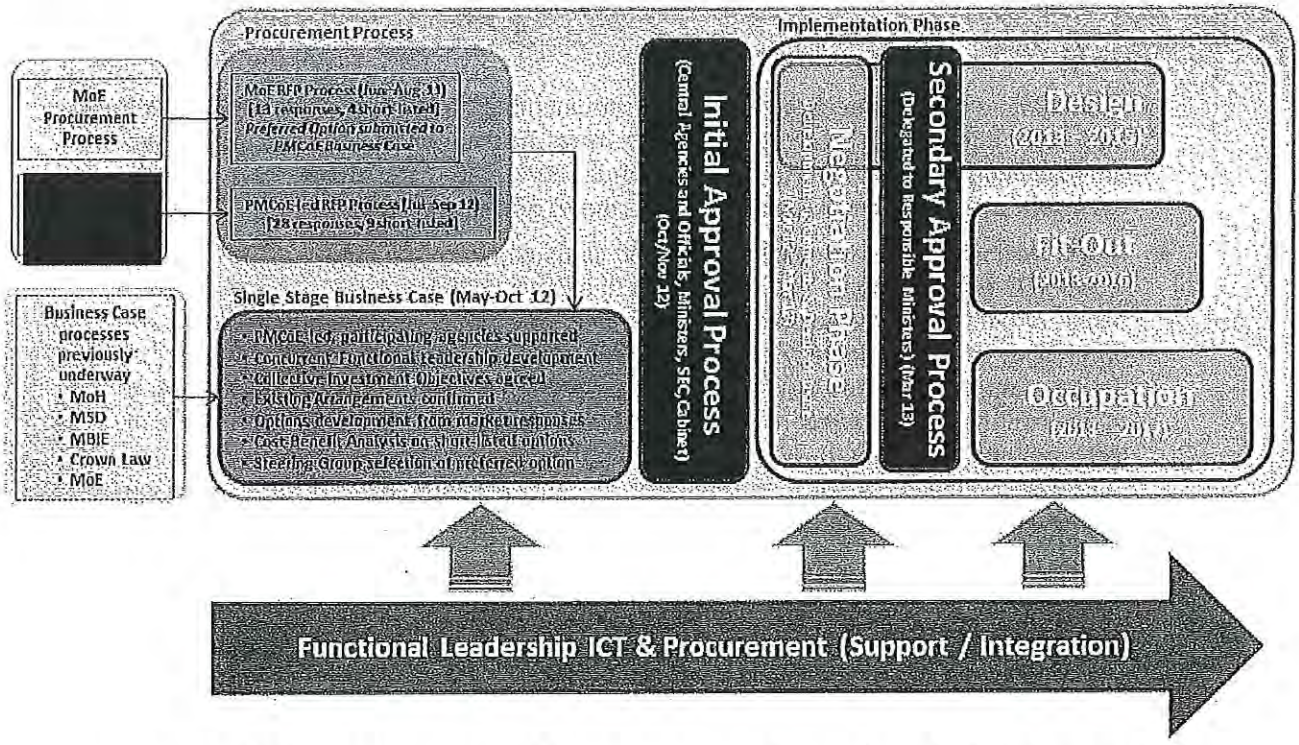
paper, The Treasury approved a Single Stage Business Case in lieu of the two-staged business case normally required for investments over $25m.[9]

16. To ensure there was appropriate stakeholder engagement from the participating agencies during this business case process, two levels of governance were established. At one level the Working Group (property management representatives) assisted PMCoE in the development of the business case outputs. The other was the Steering Group (Deputy Chief Executive-level) who ratified decisions, provided the strategic context for each agency, and also kept their respective chief executives informed on the process.

17. The key dates for the process undertaken, including future approval requirements and implementation, is as follows:

    - Initial approval of preferred solution by Cabinet: November 2012;
    - Detailed negotiations with property owners: November 2012 – March 2013;
    - Final approval by Joint Ministers: March/April 2013; and
    - Design / Fit-out / Occupy: April 2013 onwards.

18. This is shown in the following diagram:



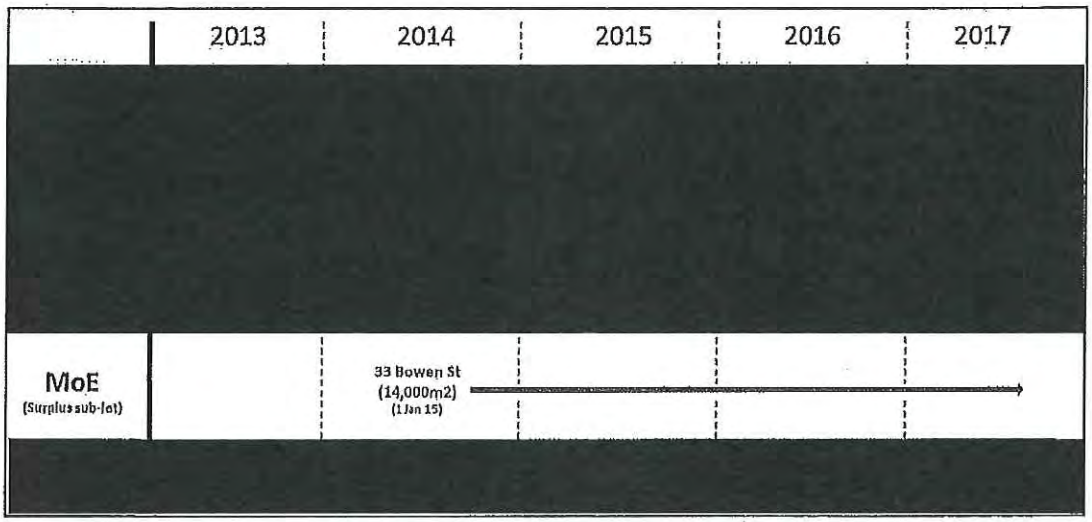
19. The PMCoE-led RFP received 28 responses from the market, of which 9 were short-listed to enable option analysis. MoE's preferred solution was also added to this list. Six combinations were identified that underwent a cost-benefit analysis and a preferred solution was agreed by the Steering Group.

[9] Cabinet Office Circular (10)2

Preferred Solution and Funding Implications

20. The preferred solution is as follows:

Diagram 3: Preferred Option



21. A summary of the preferred solution is as follows:

- [redacted]
- [redacted]
- [redacted]
- **MoE:** Will relocate to 33 Bowen St when MBIE agencies vacate in 2014. Some refurbishment will be required before MoE takes occupation, likely to bring it up to 82% NBS.
- [redacted]

22. The preferred solution will not lock the Crown into a long-term solution that is not flexible to the changing requirements agencies will likely face, particularly if FTE numbers reduce. Initiatives such as Government Shared Services or relocating non-centre facing

staff to sites outside the WCBD will reduce the needs of agencies from the preferred solution. This risk will be mitigated by PMCoE undertaking a strategic portfolio approach to management that is able to identify other appropriate agencies with leases expiring who can backfill surplus space in the WCBD as it becomes available.

23. The cost-benefit analysis of the preferred option, as compared to the status quo, is as follows:

Table 1: CBA of Preferred Option

Appraisal period (20 yrs) FY 12/13 - FY 31/32	Status Quo	Preferred Option	Difference	% Change
Area Leased (m^2)	124,447	87,522	36,924	30%↓
Occupancy ($m)	1,323.36	1,074.30	249.06	19%↓
Other ($m)	7.22	7.18	0.04	1%↓
Total Occupancy ($m)	1,330.58	1,081.48	249.10	19%↓
Capital costs ($m)	186.20	108.55	77.64	42%↓
Whole of life costs (Real Terms) ($m)	1,210.64	952.31	258.33	21%↓
Net Present Value (NPV @ 6.5%) ($m)	744.73	592.48	152.25	20%↓

24. The collective funding arrangement for the preferred option is as follows:

Table 2: Collective Funding Arrangement

	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20-31/32	TOTALS
PREFERRED SOLUTION - 87,522 m^2									
Operating ($m)									
• Gross Rent	41.34	40.30	42.27	37.04	42.50	42.56	41.40	637.37	924.78
• R&M	2.42	2.39	2.31	1.92	2.16	1.99	1.88	30.75	45.83
• Cleaning / Hygiene	2.75	2.71	2.62	2.18	2.46	2.26	2.14	34.88	51.99
• Power	2.24	2.21	2.13	1.77	2.00	1.84	1.74	28.41	42.34
• Security	0.60	0.49	0.47	0.39	0.44	0.41	0.38	6.28	9.36
• Total Occupancy Cost	49.26	48.10	49.79	43.30	49.56	49.05	47.64	737.70	1,074.30
• Other	0.39	2.54	1.65	0.65	1.47	0.00	0.00	0.49	7.18
• Depreciation	5.78	5.57	6.19	6.19	0.51	8.51	8.48	73.59	122.81
Sub-total	55.43	56.21	57.63	50.14	59.54	57.56	56.02	811.77	1,204.28
Existing operating provision (inc depn)	55.87	56.38	56.68	58.27	58.65	58.88	58.88	765.40	1,169.00
Shortfall (-) to be funded from baseline	0.44	0.17	(0.95)	8.13	(0.89)	1.32	2.86	(46.37)	(35.28)
Capital ($m)									
• Main contract & subdivisional hard f	8.82	13.50	14.22	19.89	10.27	0.00	0.00	17.52	84.22
• Soft fitout	2.85	4.43	5.63	6.19	3.20	0.00	0.00	2.04	24.33
Total to be funded from cash reserves	11.67	17.92	19.85	26.08	13.47	0.00	0.00	19.56	108.55

[redacted]

25. The 20-year whole-of-life funding arrangements by agency, as compared to the status quo, are as follows:

Table 3: Funding Arrangements by Agency

Expense Type	[redacted]	MOE	
		SQ	PO
Operating ($m)			
· Total Occupancy Cost		210.90	165.25
· Other		0.82	2.86
· Depreciation		34.48	21.36
Sub-total		246.20	189.47
Existing operating provision (inc depn)		177.83	177.83
Shortfall (-) to be funded from baseline		(68.36)	(11.63)
Capital ($m)			
· Main contract & subdivis		27.54	14.91
· Soft fitout		5.25	4.76
Total to be funded from cash reserves		32.79	19.67

Key: SQ = Status Quo, PO = Preferred Solution

26. Operating costs for property are forecast to rise significantly, and the status quo projection is a shortfall (in nominal terms) of $375.14m against current baselines across all agencies over the 20 year forecast period. The preferred solution reduces this shortfall to $35.28m over the 20 year term, to be funded by agencies. No additional funding is sought for this preferred solution.

27. The significant reduction in projected expenditure is primarily achieved through agencies adopting 13m^2 per workpoint and from improved procurement processes. For agencies, this will mean adopting higher density workplaces through more efficient use of office furniture solutions; supported by greater utilisation of ICT. The status quo is based upon agencies retaining their current footprints and not undertaking any internal reductions of that space. The significant cost avoidance projected can therefore not be based solely upon the role PMCoE has had in this process as agencies would have undertaken some degree of their own reductions to meet cost pressures on baselines.

Key Outcomes

28. The following are the key outcomes from the PMCoE-led procurement and business case process for Wellington head office accommodation:

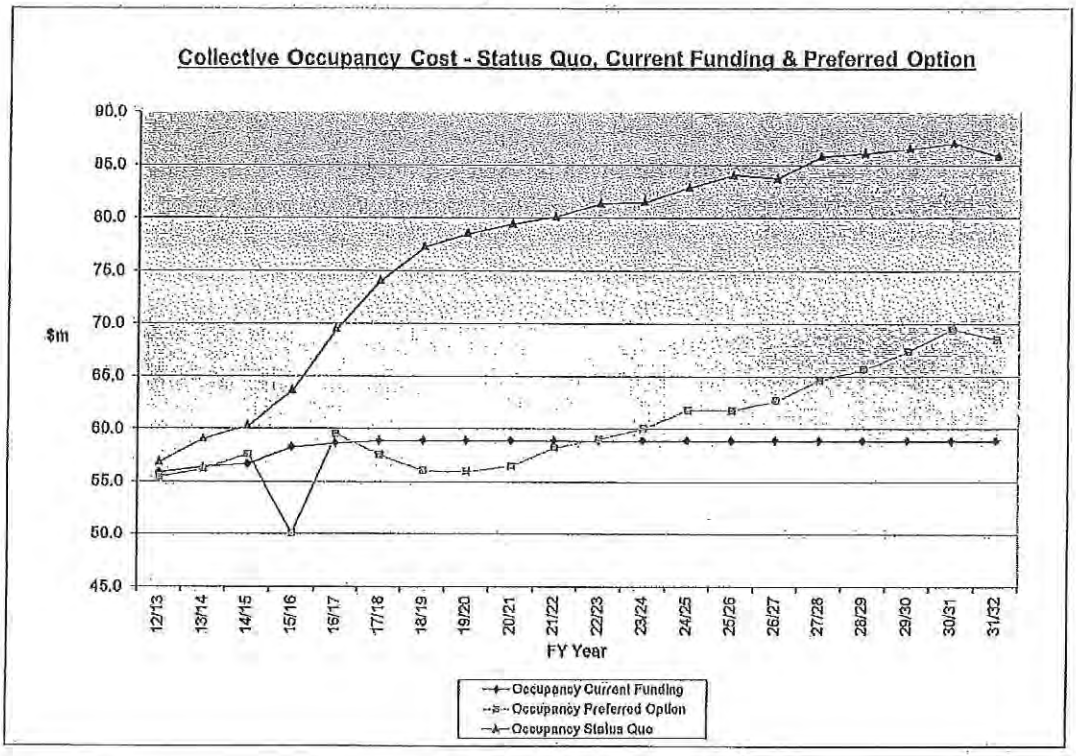
- **No additional funding** – The preferred solution requires no additional funding from the Crown over the 20 year appraisal period and any projected shortfalls will be absorbed by the participating agencies within their existing baselines.
- **Enhanced agency effectiveness** - The preferred solution optimises effectiveness through co-location of agencies into a single site each, as opposed to the multiple sites that they currently occupy.[10]

[10] Collectively the participating agencies currently occupy 19 sites, which will reduce to 5 with the preferred solution implemented.

- **Projected savings –** [redacted] are projected to achieve baseline savings over the 20 year appraisal period, despite ongoing increases to property-related goods and services.
- **Establishment of sector hubs –** [redacted] this creates enhanced collaboration, business effectiveness, cost efficiencies, and opportunties to explore further initiatives such as shared back office services.
- **Improved building quality and safety** – All new sites will be significantly better in terms of quality, efficiency and safety standards than the status quo. This will provide greater employee safety and satisfaction, and improved business continuity capability.
- **Non-centre facing ongoing development** – Despite the higher level analysis indicating a value proposition for accommodating non-centre facing staff outside of the WCBD, no non-centre facing sites met the criteria for short-listing during this business case process. A separate detailed project will be undertaken with a report back in 2013 in order to progress this initiaitve. This analysis does not impact upon the decisions to secure the preferred solution. Any subsequent decision to re-locate non-centre facing staff will allow for the a corresponding backfill of surplus footprint.
- **Minimal disruption** - With the exception of [redacted] this solution minimises the disruptions associated with the re-location of agencies, while also minimising any lease tails prior to occupation.
- **Reduction in short-medium term fiscal pressures –** Based on the projected costs and associated funding arrangements, the preferred solution will not require the collective participating agencies to absorb shortfalls until FY 28/29.
- **Improved flexibility** – The Crown is able to respond more effectively to changing head office requirements with the greater centralisation of the government's property portfolio management and increased commonality of workplace design and standards.
- **Changing market dynamic** – The Crown is able to leverage its economies of scale in the procurement of property-related goods and services while also creating an over-supply of office accommodation in the market through a significant reduction in its footprint, thus mitigating future rental increases on a like-for-like basis.

- **Significant cost avoidance** – Rental costs (and associated operating costs for property) are expected to rise significantly over the 20 year appraisal period. While a collective nominal shortfall of $35.28m is expected over the appraisal period, it is significantly lower than the status quo with a projected shortfall of $375.14m. The preferred solution therefore reduces the potential total operating cost pressure by $339.86 million. This is illustrated in the following graph:

Diagram 4: Occupancy Cost - Status Quo, Current Funding & Preferred Option



Recommendations

29. This business case recommends that Cabinet:

a. **note** that the Property Management Centre of Expertise (PMCoE) and the participating agencies have identified a preferred head office accommodation solution, following a joint procurement and business case process;

b. **approve** the attached business case and the preferred accommodation solutions for the Ministries of [redacted] Education; [redacted]

c. **delegate** to Joint Ministers (Minister of Finance and responsible agency Minister) the authority to agree to the final investment decision for each agency's accommodation [redacted] within a 5% variance of the collective anticipated NPV whole of life costs of $592.48 million (Cabinet authority is required for investment decisions with a whole-of-life cost over $25 million, as per Cabinet Office Circular CO (10)2);

d. **direct** the Chief Executive of the Ministry of Social Development, in consultation with the Ministries of Education, [redacted] to negotiate development agreements for the preferred buildings and report to those Ministers delegated in recommendation 3 above for approval;

e. **direct** the Chief Executive of the Ministry of Social Development to negotiate a development agreement with alternate short-listed suppliers from the PMCoE-led request for proposal process, in the event that an agreement cannot be reached with a preferred supplier;

f. **invite** the Minister of State Services to release media statements in relation to this co-ordinated procurement and business case process within the context of functional leadership;

g. **note** that despite projected increases for property-related costs across the 20 year appraisal period, the preferred solution:

   i. does not require additional Crown funding;

   ii. delivers a collective shortfall (in nominal terms) of only $73.98 million which agencies have committed to funding within current baselines over the next 20 years (see Appendix 7);

   iii. achieves cost avoidance of $339.86 million compared to the projected status quo;

   iv. realises baseline savings of [redacted]

h. **note** that in addition to the benefits above, it is also estimated that agencies have collectively saved the equivalent of approximately $1 million in reduced procurement and business case processes. Building owners have also benefited from the streamlined process to respond to multiple government agencies;

i. [redacted]

j. **note** that the PMCoE will undertake a project in 2013 to evaluate the costs and benefits of occupying sites in lower cost locations outside the Wellington Central Business District for non-centre facing functions;

k. [redacted]

l. **note** that the preferred accommodation solution offers buildings with greater levels of safety and standards than those already occupied by the participating agencies, improving staff safety and reducing the risk to business continuity; and

m. **note** that collectively the participating agencies have had a reduction of 30% in their property footprint (124,447m^2 to 87,522m^2), and will occupy the following space as part of the preferred solution:

i. [redacted]

ii.

iii.

iv.

v. MoE: Current footprint: 21,179m^2; Preferred option footprint: 13,179m^2; and

vi. [redacted]

Introduction

1. On 26 July 2012 the Committee on State Sector Reform and Expenditure Control approved *Accelerating Functional Leadership For Better Public Services,*[11] which contained the following recommendations:

    10. **agree** that the Chief Executive of the Ministry of Social Development sign off on all departmental property decisions in Christchurch. This is to cover both decisions in relation to the Christchurch CBD (office accommodation for regional management and corporate support functions) and the wider service delivery network;

    11. **agree** that the Chief Executive of the Ministry of Social Development will lead a co-ordinated procurement process (including business case) for office accommodation in Wellington for those agencies currently seeking head office accommodation; and

    12. **invite** the Minister of State Services to submit a further paper by 30 September to address the future scope of activity in the property area and any further issues relating to regional office accommodation strategies.

2. This business case responds to recommendation 11 and presents the preferred accommodation solution for the Ministries of [redacted] Education, [redacted] (hereinafter referred to as the participating agencies). [redacted]

3. Each of the participating agencies was at varying stages of their business case and procurement processes when the decision was made to combine these under a single PMCoE-led process. [redacted][12] MoE already had Cabinet approval[13] to negotiate with its preferred supplier and it was agreed to allow this negotiation to continue, but with a caveat that this building would be included with the PMCoE market short-list from which collective solutions would be developed from. [redacted]

4. Due to the significant work that had previously been undertaken by participating agencies, and also the concurrent development of the Functional Leadership Cabinet

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[11] SEC Min (12) 10/12

[12] Cab Min (12) 12/3A dated April 2012

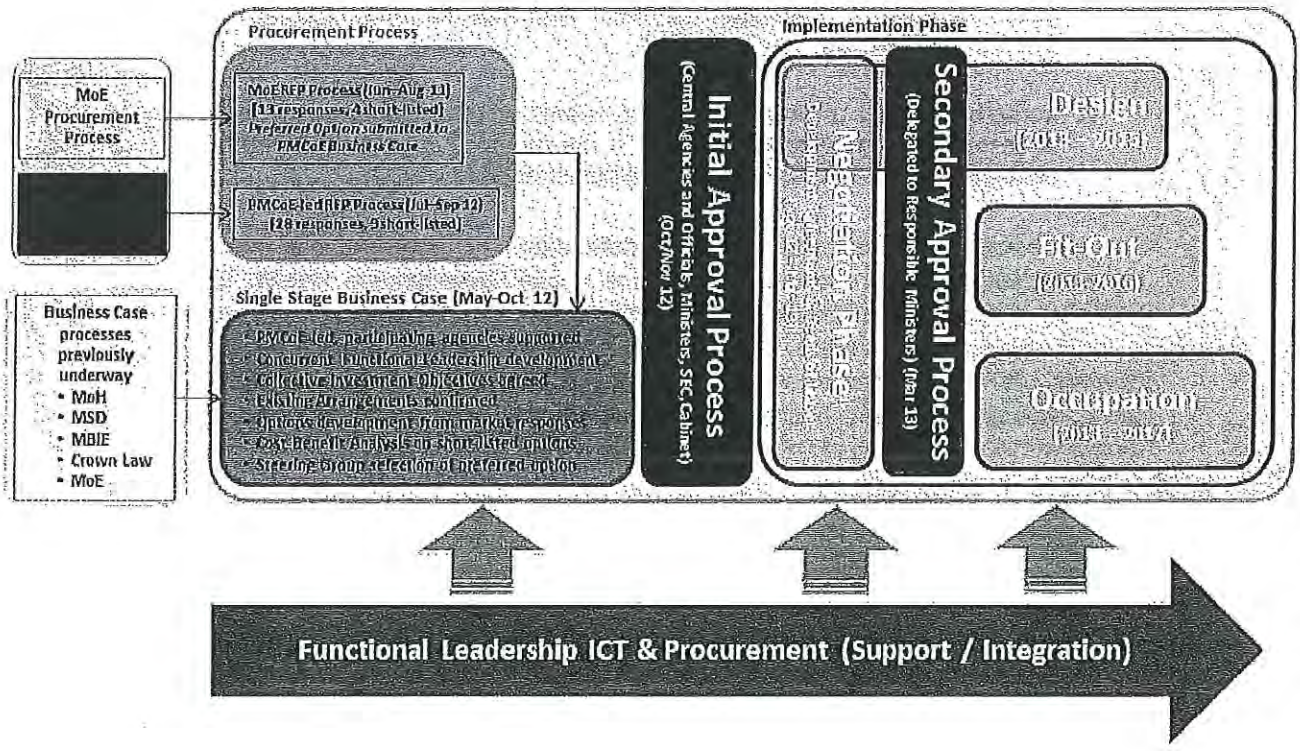
[13] Cabinet Social Policy Committee SOC Min (12) 4/2 dated 29 March 2012

[14] Cab Min (12) 8/14

paper, Treasury approved a Single Stage Business Case in lieu of the two-staged business case normally required for investments over $25m.[15]

5. On 16 July 2012 the PMCoE issued a RFP for 50-60,000m^2 of office accommodation in Wellington. The additional requirements of the MBIE meant the equivalent of around 70,000m^2 would be required and these additional requirements have been met by considering a wider range of property options in response to the RFP. 28 proposals were received from the market and 9 were shortlisted. The information from the 9 shortlisted proposals was used to inform the cost-benefit analysis in this business case and a preferred solution was agreed by the Steering Group. This is shown in the following diagram:

Diagram 4: Combining the Business Case and Procurement Processes



[15] Cabinet Office Circular (10)2

Identifying Key Stakeholders

6. The key stakeholders (internal and external) for this Business Case are summarised in the following tables (additional detail is provided in Appendix 2):

Table 4: Internal Stakeholders

Stakeholder	Role	Interests	Influence
Chief Executive Ministry of Social Development	Functional Leader of strategy Lead briefings to agency CE's	Maximise efficiency from office accommodation across the State Services	High
Deputy Chief Executive (PCR) Ministry of Social Development	Senior Responsible Owner Lead internal and external briefings	Maximise efficiency from office accommodation across the State Services Maximise efficiency from individual agencies accommodation solution	High
Participating Agency Chief Executives	Leader of change and communication internally	Maximise value for money for agency's accommodation solution	Moderate
PMCoE	Business Owner	Maximise efficiency and effectiveness from office accommodation across the State Services; Lead project outputs	High
Steering Group	Provide agency strategic project advice and ensure business needs are met	Agency alignment to wider strategy, and maximising value for money for their agency	Moderate
Working Group	Support and inform project	Project processes and timelines and impact on agencies normal operations.	Low
Participating agency Chief Financial Officers	Provide financial advice and information to support project	Funding impacts of property solutions on their respective agency.	Low
Participating agency employees	Prepare to shift to new property solutions	Impact on location and working environment	Low

Table 5: External Stakeholders

External	Role	Interests	Influence
Cabinet Ministers	Formal decision making body	Impacts on Crown funding, expenditure and risks	High
Responsible Ministers	Agency oversight	Management of agency's assets and capacity	High
Treasury	Oversight Funding and risk advice Project representation	Ensure compliance against State Sector best practice. Maximise efficiency from office accommodation across the State Services	High
State Services Commission	Monitoring and compliance	Ensure compliance against State Sector best practice. Monitor implementation of Functional Leadership Property	High
Media	Communicate messages to NZ public	What is the purpose of the change? When are changes occurring and what are they? Who is impacted and how?	Low
NZ Public	General interest (particularly Wellington)	Variable interests including impacts on people, environment, economy (local and national).	Low
PSA	Supporting Public Service employees during change	Maintaining a fair, legal and transparent process for staff.	Low
Property developers / landlords	Commercial property providers	Supplying property solutions for participating agencies. Impact on demand for office accommodation in the WCBD.	Moderate

7. To ensure there was appropriate stakeholder engagement from the participating agencies during this business case process, two levels of governance were established. At one level the Working Group (property management representatives) assisted PMCoE in the development of the business case outputs. The other was the Steering Group (DCE-level) who ratified decisions, provided the strategic context for each agency, and also kept their respective chief executives informed throughout the process.

Strategic Case – Making the case for change

Strategic Context

Overview – State Services' Office Accommodation

8. The State Services leases approximately 1,247,000m^2 of office accommodation across New Zealand, costing $326m per annum to house 60,600 staff. More than half of this space, 520,000m^2, is leased in the WCBD, costing approximately $180m per annum to house approximately 25,400 staff. While only 42% of FTEs are located in the WCBD, they account for 55% of the total accommodation costs.[16]

9. An on-going issue that the State Services faces with office accommodation is how short to medium term organisational change creates tension against relatively inflexible long term property contracts. Lease terms contracted by the Crown for head office accommodation are typically 9 or 12 years for the initial term, often in order to allow developers to secure finance for any capital works on buildings. Whilst agencies provision for anticipated changes, it is common for policy changes, restructures or major projects to significantly change the profile of the agency's property footprint. This either creates surplus space within existing buildings that agencies find difficult to sub-let, or means they need to take on additional space under short-term arrangements.

10. As the capital city, a strong government presence in the WCBD is expected; however, two factors also underpin the cost of accommodation in the WCBD:

    i. the siloed approach of agencies to the procurement and management of office accommodation; and

    ii. the inefficient use of commercial office accommodation leased by State Services agencies.

Siloed Approach

11. The siloed approach of agencies to the procurement and management of office accommodation manifests in the following outcomes:

- Duplication of cost and effort;
- Difficulty in leveraging the Crown's economies of scale in the procurement of property-related goods and services;
- Agencies are sometimes in competition with each other for the same properties, potentially driving up costs for Crown and the private sector
- Difficulty in identifying and optimising surplus space already leased by the State Services in order to reduce costs; and
- Little or no consideration of opportunities to co-locate agencies to reduce costs and improve agency, sector or all-of-government collaboration and service delivery.

[16] Report on the Crown Office Estate (as at 30 June 2011)

Inefficiency

12. The more efficient use of space is a key factor to reducing the size and cost of the office accommodation leased by the Crown. On average, State Services FTEs occupy the equivalent of 20.5m^2 within Wellington, as compared with Cabinet expectations of between 12-16m^2 per FTE.[17]

13. For improved effectiveness, agencies also prefer staff to be co-located either in a single site or in close proximity within the WCBD. This means that opportunities to reduce costs by relocating staff that do not need to be located in the WCBD to cheaper sites outside the WCBD are rarely considered. This will ensure that demand for office accommodation in the WCBD remains high and costs continue to rise.

Changing Market Dynamics

14. The seismic events in Christchurch have driven an increased demand in Wellington for buildings that offer an appropriate level of seismic resilience. The Crown is reflective of this demand and is already transitioning away from buildings that are considered earthquake prone. The result of this is a corresponding increase in demand for buildings offering a higher level of seismic resilience and an increase in insurance costs, particularly for less resilient buildings. Compounding this issue is the fact that the Crown and the private market are competing for the limited supply of these buildings.

15. The prospect of higher rents is amplified when considered in the context of low rents that many agencies are currently paying. In some cases new rental costs will almost double as agencies transition to new sites, placing significant fiscal pressures on them that may not be sustainable.

Conclusion

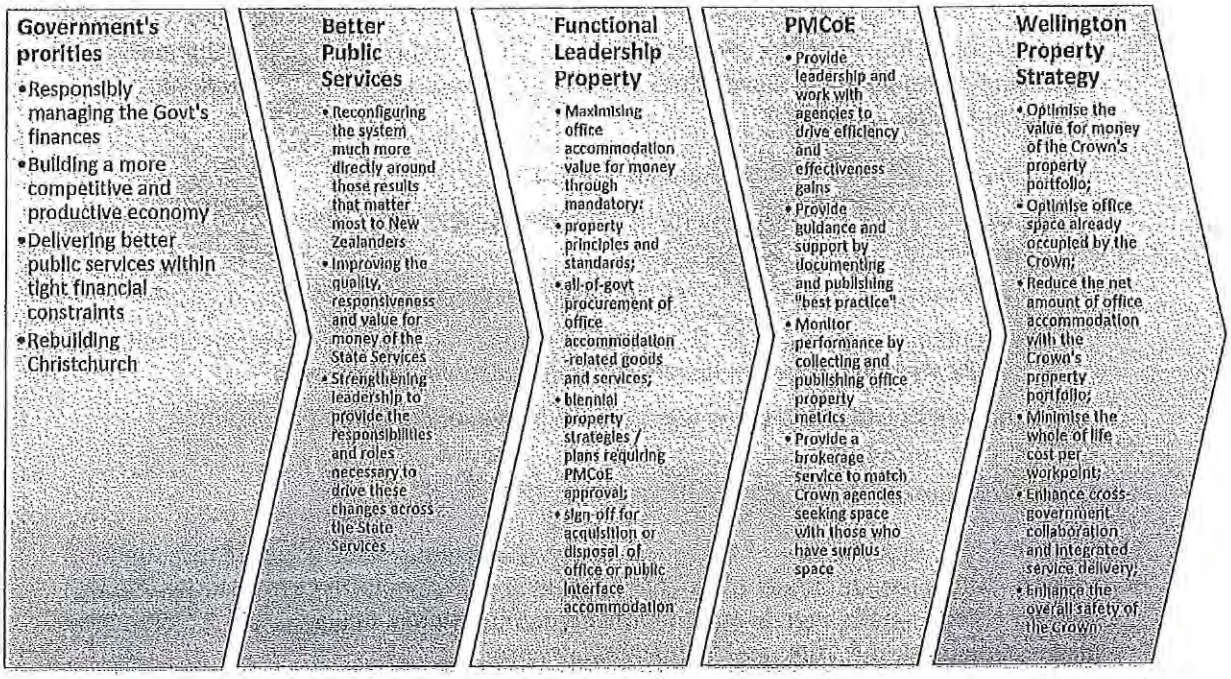
16. The analysis shows that the Crown leases more accommodation than it needs, and can better optimise the use of the space that it does occupy. To manage the Crown's cost profile over the medium term, a strategy is required that not only reduces the amount of space leased, but also mitigates further increases in the cost of that space. This business case includes strategies to achieve this.

[17] Ibid

Alignment to Existing Strategies

17. The Wellington Office Accommodation Strategy is directly linked to the Government's priorities and programmes of work currently underway. This is shown in the following diagram and associated paragraphs:

Diagram 2: Strategic Alignment



Government Priorities and Better Public Services

18. The establishment of the Functional Leader Property, PMCoE and strategies to improve the value for money for the Crown's property portfolio all support the principles of the Better Public Services and Government's four priorities for this term, as outlined below:

    a. responsibly managing the Government's finances

    b. building a more competitive and productive economy

    c. delivering better public services within tight financial constraints

    d. rebuilding Christchurch

Functional Leadership Property

19. In July 2012, Government established a Functional Leadership initiative as part of the Better Public Services programme in order to drive efficiencies within ICT, property and procurement.[18] The medium-term ambition of the Functional Leader Property was to maximise savings in government office accommodation by centralising decision-making in the office accommodation field. Benefits come from a combination of:

    - achieving economies of scale;

[18] [SEC Min (12) 10/12] Accelerating Functional Leadership For Better Public Services dated 26 July 2012

- addressing capability issues such as under-development, duplication, or fragmentation of skills and/or infrastructure; and
- aligning agencies' processes and systems to facilitate collaborative working – including work on the Government's result areas 9 and 10 which aim to transform the quality of interaction between public services and New Zealand's citizens and businesses.

20. The Functional Leader Property is the Chief Executive of the Ministry of Social Development, who holds the property mandate. On 1 October 2012, the Committee on State Sector Reform and Expenditure Control approved the following mandate for the Functional Leader property:[19]

    a. mandatory property principles and standards;
    b. mandatory all-of-government procurement for office accommodation-related goods and services;
    c. mandatory biennial property strategies/plans requiring PMCoE approval;
    d. mandatory signoff for all acquisition or disposal (partial or whole) of office or public interface accommodation, whether leased or owned; and
    e. mandatory adoption of the Integrated Workplace Management System.

Property Management Centre for Expertise (PMCoE)

21. In April 2011, PMCoE was established to drive efficiency and effectiveness gains in property management across Departments and Crown Agents by providing leadership, guidance and support, monitoring and brokerage, but without changing the accountability for decision making.[20] The roles of the PMCoE were:

    a. to provide leadership and work with agencies to drive efficiency and effectiveness gains in property management and recommending property management expectations for approval by cabinet;
    b. provide guidance and support by documenting and publishing "best practice", working with agencies to work towards best practice, and identifying agencies with strong property management expertise that are willing to advise and support their peers;
    c. monitor performance by collecting and collating office property metrics and information and publishing an annual report on property; and
    d. provide a brokerage service to match crown agencies seeking space with those who have surplus space, investigate the shared contracting of property related supplies and facilities management, and support the co-location of agencies (including identifying common barriers to co-location and development solutions.

22. With the establishment of the Functional Leader Property initiative, PMCoE became its operational arm. This business case leverages the Functional Leader's mandate to deliver collective benefits for the participating agencies.

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[19] Cab Min (12) 35/4B dated 1 October 2012

[20] Cab Min (11) 14/14 Establishment of Property Management Centre of Expertise dated 4 April 2011

Wellington Property Strategy

23. The Wellington Property Strategy has been developed for the participating agencies and future tranches, and derives directly from the purpose and mandate of the Functional Leader Property and the role of the PMCoE. The strategy is to maximise the value for money of head office accommodation by:

    a. Optimising the use of space already occupied by the State Services;

    b. Reduce the amount of office accommodation within the Crown property portfolio;

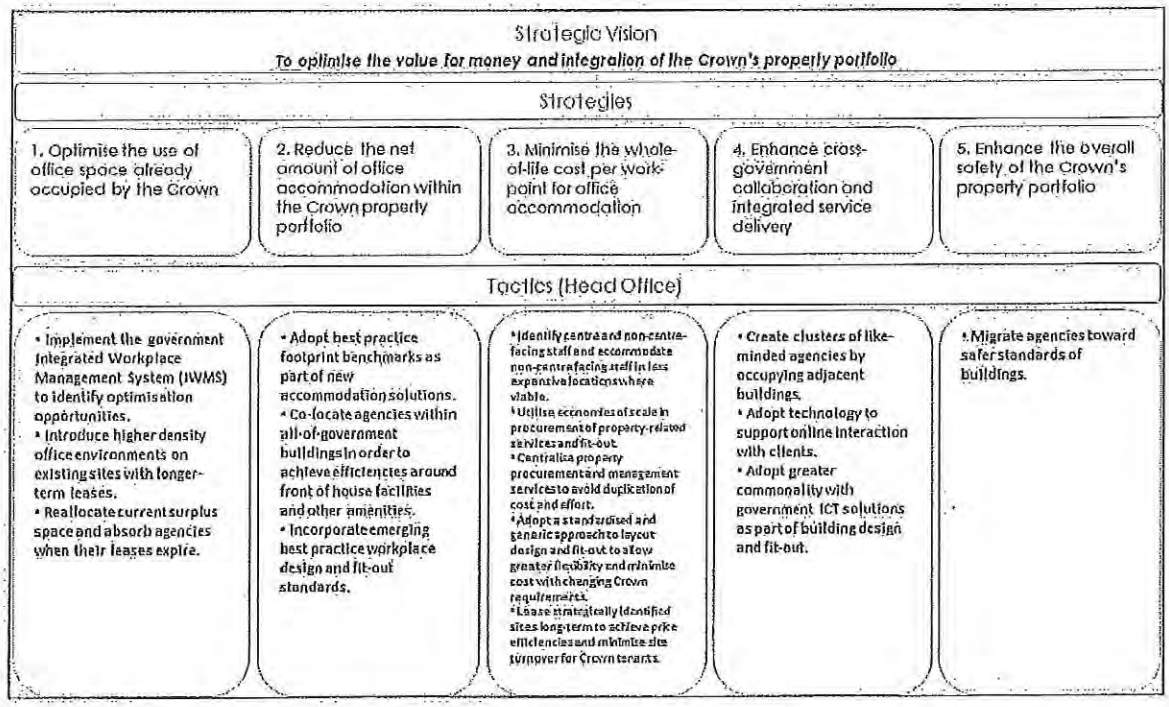
    c. Minimise the whole-of-life cost per work-point for office accommodation;

    d. Enhance cross-government collaboration and integrated service delivery; and

    e. Enhance the overall safety of the Crown's property portfolio.

24. These strategies and their associated tactics are summarised in the following diagram:

Diagram 3: Wellington Property Strategy



Investment Objectives, Existing Arrangements and Business Needs

Investment Objectives

25. A facilitated case for change workshop was held with key stakeholders to identify the investment objectives, existing arrangements, and business needs. The key stakeholders identified and agreed the following investment objectives:

a. **Investment objective one:** To reduce the amount of office accommodation leased by the participating agencies in the Wellington region

b. **Investment objective two:** To minimise the cost per work point of office accommodation leased by the participating agencies in the Wellington region

c. **Investment objective three:** To optimise the use of office space leased by participating agencies in the Wellington region

d. **Investment objective four:** To improve the flexibility and responsiveness of the Crown's property portfolio

e. **Investment objective five:** Utilise the property solution to better enable agency, sector and All-of-Government business outputs

f. **Investment objective six:** To improve and maintain the building safety and quality across the participating agencies

g. **Investment objective seven:** To better facilitate the effectiveness and increase the efficiencies from common property related procurement and ICT functions delivered as part of the property solution.

Existing Arrangements and Business Needs

26. The existing arrangements and Business Needs relative to each Investment Objective is summarised in the following table:

Table 6: Existing Arrangements and Business Needs

Investment Objective One	To reduce the amount of office accommodation leased by participating agencies in the Wellington region.
Existing Arrangements	Participating agencies lease the equivalent of 124,447m^2 in the WCBD
Business Needs	To deliver an accommodation solution that reduces the area of office accommodation leased by the participating agencies to within expected guidelines
Investment Objective Two	**To minimise the cost per work point for office accommodation leased by participating agencies in the Wellington region**
Existing Arrangements	The average cost per work point for the participating agencies is $7,747 (FY 18/19)
Business Needs	To deliver an accommodation solution that mitigates further increases in office accommodation-related goods and services
Investment Objective Three	**To optimise the use of office space leased by the State Services in Wellington**
Existing Arrangements	State Services agencies currently exceed good practice property benchmarks, and often have surplus space that is created due to short-term organisational change within a long-term property commitment
Business Needs	Surplus space within State Services agencies in Wellington is minimised

Investment Objective Four	To improve the flexibility and responsiveness of the Crown's property portfolio
Existing Arrangements	Agencies manage their accommodation needs within silos; there is little or no consideration of cross-government requirements to improve flexibility and responsiveness of the portfolio.
Business Needs	Accommodation solution is part of a "strategic footprint" in the Wellington region that can be leveraged by other State Services agencies over the long term.
Investment Objective Five	**Utilise the property solution to better enable agency, sector and All-of-Government business outputs**
Existing Arrangements	Agencies currently manage their accommodation within silos meeting only their business requirements. Most agencies currently occupy multiple sites spread throughout the WCBD.
Business Needs	Accommodation solution takes wider State Services' requirements into account to enhance business outputs and improve effectiveness.
Investment Objective Six	**To improve and maintain the building safety and quality across the participating agencies**
Existing Arrangements	Agencies occupy a range of properties with a variety of building safety and quality issues. Some of these are resolvable subject to negotiated terms with building owners while others are not easily or physically resolvable.
Business Needs	An accommodation solution that provides and appropriate level of both building safety and quality.
Investment Objective Seven	**To better facilitate the effectiveness and increase the efficiencies from common property-related procurement and ICT functions delivered as part of the property solution.**
Existing Arrangements	Agencies procure office accommodation as a commodity and only have limited common procurement of related products and services. ICT design and fit-out as part of building re-fits is not standardised, reducing the flexibility of the Crown to changing organisational needs.
Business Needs	Coordinate centralised procurement of office accommodation and identify common procurement opportunities to increase efficiency and effectiveness of related products and services.

Key Service Requirements and Potential Business Scope

27. The following key service requirements and potential business scope were developed:

Table 7: Key Service Requirements and Potential Business Scope

	Minimum	Intermediate	Maximum
Key Service Requirements	***Operational:*** • $16m^2$ per FTE • Two sites per agency in CBD • Apply Govt workplace stds (PMCoE guidance) • Located within the Wellington CBD ***Co-location of agencies*** • No co-location of agencies ***Centre/non-centre facing options:*** • Allows non-centre facing staff to be located outside the Wellington CBD in future ***Surplus Space:*** • Leverage surplus space already leased by the participating agencies	***Operational:*** • $13m^2$ per FTE • Single site per agency • Applies Govt workplace stds (PMCoE monitor, agency lead) • Located in close proximity to the Beehive ***Co-location of agencies*** • Some agencies are co-located and have shared workspaces ***Centre/non-centre facing options:*** • Group 4 staff located in non-centre facing site ***Surplus Space:*** • Leverages surplus space leased by the State Services	***Operational:*** • $<13m^2$ per FTE • Single site per agency • Applies Govt workplace stds (PMCoE delivered) • Located close proximity to the Beehive ***Co-location of agencies*** • Create the nucleus of Sector or collaborative hubs ***Centre/non-centre facing options:*** • Group 3 and 4 staff located in non-centre facing site ***Surplus Space:*** • Leverages surplus space leased by the State Services

Main Benefits

28. The main benefits of this proposal are summarised in the following tables:

Table 8: Monetary Benefits

Monetary Benefits	Timeframe	Beneficiaries	Direct or Indirect?
Reducing the footprint from an average of $20.5m^2$ to $13m^2$ for the participating agencies will minimise the operating and capital expenditure associated with the preferred solution.	Short	Agencies Government Taxpayers	Direct
Reduced overall requirement for government-leased property increases supply over demand, potentially reducing market rents on a like-for-like basis.	Medium	Government Taxpayers Private sector	Indirect

Monetary Benefits	Timeframe	Beneficiaries	Direct or Indirect?
Co-location and shared space opportunities reduce property footprint leased by the State Services	Short	Agencies Government Taxpayers	Direct
Common workplace standards will reduce the cost associated with re-locating government employees within Wellington.	Medium	Agencies Government	Indirect
Economies of scale applied in procurement of property, capital fit-out and operating services achieve greater efficiencies for the Crown.	Short	Agencies Government Taxpayers	Direct
Centralised approach to procurement and business case process avoids duplication of costs and effort by participating agencies.	Short	Agencies Government	Direct
Greater integration of Functional Leadership Procurement and ICT as part of the collective property solution achieves greater economies of scale and efficiencies in related costs.	Short/Medium	Agencies Government	Direct

Table 9: Non-Monetary Benefits

Non-Monetary or Intangible Benefits	Timeframe	Beneficiaries	Quantitative or Qualitative?
Common workplace standards will provide greater flexibility to move government employees due to organisational changes	Medium	Agencies Government	Qualitative
Greater co-ordination and operational effectiveness provided by reducing the number of sites agencies occupy	Short	Agencies Staff	Qualitative
Improved safety quality and/or location of property improve retention of staff by the agencies.	Medium	Agencies Government Staff	Quantitative
Centralised procurement and management of property creates a prioritised and coherent allocation of the Crown's property portfolio, including reallocation of surplus space.	Short/Medium	Government	Qualitative
Greater integration of Functional Leadership ICT as part of the collective property solution increases the effectiveness of cross-government outputs.	Medium	Agencies Government	Qualitative

Main Risks

29. The main risks of this proposal described in the following table:

Table 10: Main Risks

Risk Event	Impact (H/M/L)	Probability (H/M/L)	Risk Management Approach
In signing a long-term lease for the participating agencies, the Crown gets locked into a property solution not fit for purpose over time	L	L	The preferred sites for participating agencies will form part of a "strategic footprint" that will be used to deliver benefits for the State Services over the long term. The terms and conditions in leases will also allow flexibility to sub-lease and transfers leases between agencies. Despite the cost-benefit analysis being 20 years, the actual initial terms of the lease will only likely be 9 or 12 years.
Centralised decisions differ from the needs of the participating agencies	M	L	Maintain agency input into process throughout. Participating agencies agreed on strategy principles and application prior to property allocation for the best value for money solution for the Crown.
NZ Public, PSA and employees perceive greater density of government office accommodation as a 'battery hen' approach.	L	M	Highlight successful adoption of similar standards in both UK Government and NZ private sector. Promote Tower Block Concept Floor as a successful example currently in use.
Anticipated future rental costs will be significantly higher than some agencies who currently occupying un-sustainable low cost office accommodation, affecting opportunities for cost reductions.	M	H	Maximise reductions in property footprint for those affected agencies to offset rising rental costs. Achieve additional savings through government economies of scale in procurement and shared space initiatives; identify opportunities to reduce the cost of the accommodation leased by agencies.
Physically dislocating agencies' centre and non-centre facing staff in the Wellington region will reduce the operational effectiveness of each organisation.	L	M	Utilise ICT solutions to reduce impact of dislocation. Ensure functional business units are co-located. Co-locate government non-centre facing staff.
Physically dislocating agencies' staff in the Wellington region may degrade the culture of the organisations.	L	M	Ensure functional business units are co-located. Ensure a comprehensive communications plan is developed to support change management. Co-locate government non-centre facing staff.

Risk Event	Impact (H/M/L)	Probability (H/M/L)	Risk Management Approach
Relocation to new property sites may affect employees and their families (positively or negatively).	M	H	Ensure timelines are outlined as early as possible to mitigate changes. Negotiate changes internally with affected staff.
Limited capacity of non-CBD options for office accommodation in the market.	M	M	Maximise non-CBD based property that provides greatest value for money. Identify medium-term opportunities / process for identifying suitable non-centre facing sites for government employees in Wellington.
Any significant movement of Crown personnel away from CBD may curtail investment in current or new buildings.	L	L	Highlight importance of centre-facing staff remaining in CBD

Optimism Bias

30. The market for the provision of office accommodation in the WCBD is well developed and competitive. Accommodation costs for buildings in a particular location and of a given quality standard can be estimated with relative accuracy. CBRE notes that market risks are typically borne by landlords and gross office rents are relatively stable over time.[21] This suggests that any optimism bias adjustment would be negligible.

31. Capital fit out rates are consistent with current Quantity Surveyor estimates and are consistent across all options. No 'tenant incentives' have been included at this stage. As negotiations are completed and estimates are refined any residual risks concerning the forecast costs may be mitigated by tenant incentives.

Constraints

32. The major constraints (factors that cannot be influenced) are:

    a. Property suppliers outside the WCBD that did not respond to the RFP; and

    b. Any mandate and appropriation changes to the State Sector Act, Public Finance Act and Crown Entities Act are not expected until February 2013.

Dependencies

33. The major dependencies are:

    a. The project must align to the Better Public Services Functional Leadership stream of work as a subordinate component of this. This will include any changes around governance/decision rights, appropriation and benefits realisation; and

[21] CB Richard Ellis (CBRE), Marketview, Wellington Office, Retail, Industrial, Third Quarter 2011

b. The actual implementation of the preferred solution (including preparation of the development agreements, site planning and fit out, decanting and occupation) all need to align to the current lease expiries for participating agencies. Failure to meet the timelines could see the Crown placed in unfavourable negotiating terms creating short-term excessive costs for business continuity.

Economic Case – Determining Value for Money

Critical Success Factors

34. The Critical Success Factors in the following table were developed for the project:

Table 11: Critical Success Factors

Critical Success Factors	Identified Critical Success Factors (CSFs)
Strategic fit and business needs	Aligns with: • PMCoE's role • Functional Leader's role • Better Public Services • Government's Priorities Delivers the business needs minimum service requirements Ensuring participating agencies remain engaged
Value for money	Maximises value for money for participating agencies by: • reducing the average m^2 to 13m^2 per FTE • eliminating competition for sites between the participating agencies
Service provider capacity and capability	There are sufficient responses for the collective business requirements of agencies that allows PMCoE to adopt a strong bargaining position during the negotiations
Potential affordability	Participating agencies are able to fund the preferred solution (both Capex and Opex)

Long-List Options and Initial Options Assessment

35. The long-list of options in the following table was developed for this business case. The long list compromises three type of options:

- **Strategic scoping options** – options designed to reduce the amount and cost of office accommodation leased by participating agencies;
- **Sourcing options** – options for sourcing the accommodation requirements of agencies, including leasehold accommodation, new build, surplus space already leased by other agencies;
- **Implementation options** - options to minimise the cost and deliver benefits for agencies transitioning to a new solution.

Table 12: Long-List Options

Dimension	Options
Strategic Scoping Options to improve value for money in the delivery of an accommodation solution	**Option1: Status Quo** - Agencies procure and manage their WCBD office accommodation independently
	Option 2: Joint Procurement: • Agencies procure office accommodation jointly to reduce procurement costs • Agencies apply 13m^2 per workpoint to reduce their space requirements
	Option 3: Joint Procurement + Standards: • Agencies procure office accommodation jointly to reduce procurement costs • Agencies apply 13m^2 per FTE to reduce agencies space requirements • Agencies apply Government Workplace Standards to optimise available space, and enhance flexibility and responsiveness
	Option 4: Joint Procurement + Standards + Surplus Space: • Agencies procure office accommodation jointly to reduce procurement costs • Agencies apply 13m^2 per workpoint to reduce their space requirements • Agencies apply Government Workplace Standards to optimise available space, and enhance flexibility and responsiveness • Agencies leverage surplus space already occupied by the State Services to reduce the space required to lease
	Option 5: Joint Procurement + Standards + Surplus Space + Non-centre facing site: • Agencies procure office accommodation jointly to reduce procurement costs • Agencies apply 13m^2 per workpoint to reduce their space requirements • Agencies apply Government Workplace Standards to optimise available space, and enhance flexibility and responsiveness • Agencies leverage surplus space already occupied by the State Services to reduce the space required to lease • Agencies relocate non-centre facing staff to a non-centre facing site to reduce costs
Options for sourcing office accommodation	**Option 1: Surplus Space across the State Services:** PMCoE identifies surplus office accommodation across the State Services to accommodate the participating agencies.
	Option 2: Market: The market supplies the accommodation requirements of the participating agencies including • Current stock • Crown new build
	Option 3: Combination: A combination of surplus space already leased by the State Services and the market.
Implementation options to minimise the cost of transitioning to new sites	**Option 1: Lease Extensions or Decant Buildings:** Participating agencies with leases that will expire soon secure short term lease extensions, or decant into short-term sites, and take occupation of new sites when they are available.
	Option 2: Surplus Space: Identify surplus space that can be occupied by agencies until their sites become available
	Option 3: Combination: A combination of lease extensions, decant and surplus space.

Long-List Options Assessment

36. A summary of the assessment of the Long-List is in Appendix 3. The short-listed options are summarised in the table below:

Table 13: Short-Listed Options

Shortlist Option A: Status Quo	Shortlist Option B: Scope Option 4 + Sourcing 3 + Implementation Option 3 (Preferred Option) includes the following features:	Shortlist Option C: Scope Option 5 + Procurement Option 4 + Implementation Option includes the following features:
Scope • Agencies procure their office accommodation independently • Agencies apply different m^2 per workpoint standards • Agencies do not leverage surplus space already leased by other agencies *Sourcing* Agencies source accommodation from the market. *Implementation* Lease extensions.	*Scope* • Agencies procure their office accommodation jointly to reduce procurement costs • Agencies apply 13m^2 per workpoint to reduce their space requirements • Agencies apply Government Workplace Standards to optimise available space, and enhance flexibility and responsiveness • Agencies leverage surplus space already occupied by the State Services to reduce the space required to lease *Sourcing* Agencies source office accommodation from surplus space already leased by the State Services and the market. *Implementation* A combination of lease extensions, decant buildings and surplus space.	*Scope* • Agencies procure their office accommodation jointly to reduce procurement costs • Agencies apply 13m^2 per workpoint to reduce their space requirements • Agencies apply Government Workplace Standards to optimise available space, and enhance flexibility and responsiveness • Agencies leverage surplus space already occupied by the State Services to reduce the space required to lease • Agencies relocate non-centre facing staff to a non-centre facing site to reduce costs *Sourcing* Agencies source office accommodation from surplus space already leased by the State Services and the market. *Implementation* A combination of lease extensions, decant buildings and surplus space.

Economic Assessment of the Short-Listed Options

37. A cost-benefit analysis has been used to assess the short-listed options and the results are located in Table 14. The short-listed options are only differentiated by the use of a non-centre facing site in option C. The inherent assumption with a non-centre facing site, based on historical and current market data, is that it will be cheaper than a site in the WCBD. Options B and C assume that the participating agencies lease the same amount of office space (87,522m^2), however, Option B has that accommodation located in the WCBD, while Option C has that accommodation split between the Wellington CBD and a non-centre facing site.

38. The economic assessment has been informed by the responses provided by suppliers to the joint RFP.

Assumptions

39. For the purposes of this cost-benefit analysis, some of the following assumptions have been made (the full list is contained in Appendix 4):

    a. Core FTE numbers have been held constant for the purposes of the cost-benefit analysis, however the collective headcount numbers have reduced from 7,039 to 6,340 (in both the status quo and the preferred solution). This reduction of 10% is a reflection of the anticipated further reduction in staff numbers through on-going restructures and completion of major projects. Of note is the formation of MBIE.

    b. All FTEs would require a workstation;

    c. Workpoints would be allocated the equivalent of 13m^2 in space (on average across the collective agencies);

    d. Agencies would always maintain a physical presence in the Wellington CBD and there would never be a scenario where all staff would be located outside the Wellington CBD;

    e. Agencies would migrate to new sites when their current lease/s expire;

    f. [redacted] and

    g. The economic life of the period for contracted services is assumed to be 20 years and this is the period over which costs and benefits are assessed.

Taxation

40. All dollar figures are expressed in GST-exclusive terms.

Whole-of-Life costs for Short-Listed Options

41. The analysis of the short-listed options are set out in the following table:

Table 14: Results of Options Analysis

Options	Option A: Status Quo	Option B: Without non-centre site	Option C: With non-centre site
Appraisal Period (years)	20	20	20
Area Leased (m^2)	124,447	87,522	87,522
Occupancy ($m)	1,323.36	1,074.30	1,032.77
Other ($m)	7.22	7.18	6.72
Capital Costs ($m)	186.20	108.55	108.71
Whole of Life Costs (Real Terms) ($m)	1,210.64	952.31	913.76
Cost-Benefit Analysis (of monetary costs and benefits at the Public Sector Discount Rate)			
Net Present Value (6.5%[22]) ($m)	744.73	592.48	556.59
Preferred Option Ranking	3	2	1

42. The analysis shows that the preferred option is Option C; however, in response to the RFP no non-centre facing proposals were short-listed from suppliers outside the Wellington CBD. For the purposes of this analysis the non-centre facing option was modelled using indicative market data and cannot be relied on for the purposes of this business case. Therefore the preferred option is Option B.

43. PMCoE is initiating a project to understand the costs and benefits of non-centre facing options and demonstrate this value proposition. The analysis will consider various options for the non-centre sites including surplus space that is already leased by the Crown, and repurposing sites that are already owned by the Crown, for example the CIT campus in Upper Hutt. In the event that this analysis demonstrates greater value for money for the Crown, it is intended to relocate non-centre facing staff into these sites. This will allow agencies to reduce costs and free-up space in their WCBD sites for the next tranche of agencies and/or use these sites as collaborative hubs.

44. PMCoE is taking a strategic approach to the current tranche of agencies, to not only meet their immediate needs, but to also create a *"strategic footprint"* in the Wellington CBD that can be leveraged to deliver strategic benefits for the State Services over the long term.

[22] As per Treasury guidance in Better Business Case Cost-Benefit Analysis

Preferred Accommodation Solution

45. The RFP closed on 10 August 2012. 28 responses were received and 9 were short-listed. The short-listed sites were combined into various configurations and matched against the requirements of agencies. A workshop was held to present the possible combinations and a full cost-benefit analysis was completed on these (see below). These combinations were then assessed by the Steering Group and the preferred accommodation solution (Option 2) was agreed.

Table 15: CBA of Market Combinations

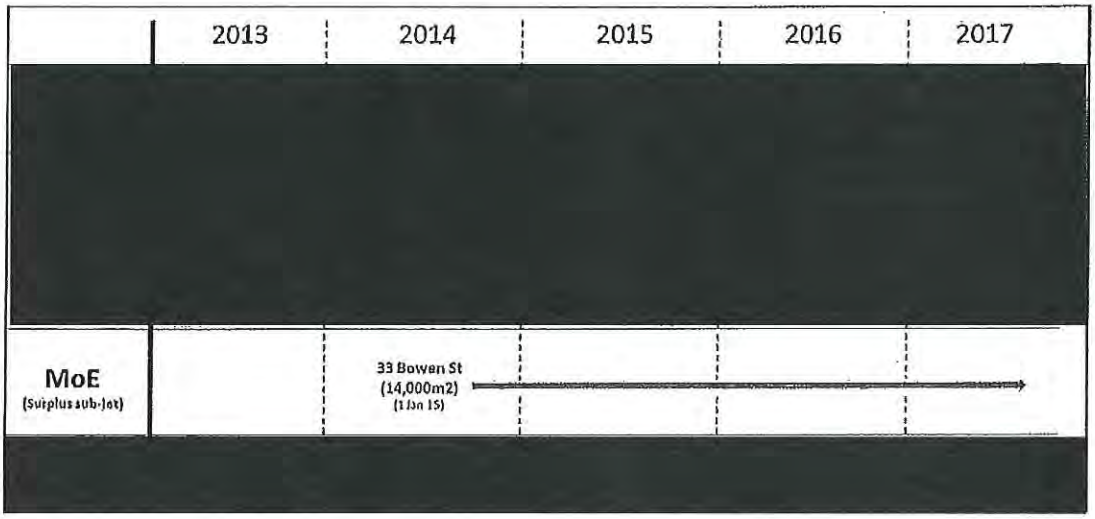
	$m						
Appraisal period (20 yrs max) FY 12/13 - FY 31/32	Status Quo	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Area Leased (m^2)	*124,447*	*82,891*	*87,522*	*89,718*	*84,290*	*82,891*	*87,522*
Made Up of:							
[1] Occupancy	1,323.36	1,055.66	1,074.30	1,120.58	1,091.26	1,058.07	1,107.23
[2] Other	7.22	7.33	7.18	6.98	6.33	5.18	8.03
Total	1,330.58	1,063.19	1,081.48	1,127.57	1,098.60	1,063.25	1,115.26
Capital costs	186.20	109.90	108.55	127.51	112.25	117.49	121.44
Whole of life costs (Real Terms)	1,210.64	939.10	952.31	1,001.84	964.40	945.83	990.01
Net Present Value (NPV @ 6.5%)	744.73	584.85	592.48	618.97	595.82	589.44	616.61

1: Occupancy = Gross Rent + Utilities (R&M, Cleaning, Power, Security)

2: Other = Professional Fees e.g. Legal, IT, Relocation, Make Good

46. The preferred accommodation solution is shown below:

Diagram 4: Preferred Solution for each Agency



47. A summary of the option is as follows:

- [redacted]

- [redacted]
- [redacted]
- **MoE:** Will relocate to 33 Bowen St when MBIE agencies vacate in 2014. Some refurbishment will be required before MoE takes occupation, likely to bring it up to 82% NBS.
- [redacted]

48. A comparison between the status quo and the preferred option is shown below:

Table 16: CBA Comparison between Status Quo and Preferred Solution

Appraisal period (20 yrs) FY 2012/13 to FY 2031/32	Status Quo	Preferred Option	Difference	% Change
Area Leased (m^2)	124,447	87,522	36,924	30%↓
Occupancy ($m)	1,323.36	1,074.30	249.06	19%↓
Other occupancy costs ($m)	7.22	7.18	0.04	1%↓
Total Occupancy ($m)	1,330.58	1,081.48	249.10	19%↓
Capital costs ($m)	186.20	108.55	77.64	42%↓
Whole of life costs (Real Terms) ($m)	1,210.64	952.31	258.33	21%↓
Net Present Value (NPV @ 6.5%) ($m)	744.73	592.48	152.25	20%↓

49. Infrastructure savings: Despite infrastructure savings not being included in the cost benefit analysis, it is anticipated that savings will be realised from reduced energy consumption and a reduction in the level of repairs and maintenance required. Energy consumption and emissions will be typical of new/modern buildings recently completed or under construction in New Zealand. PMCoE intends to engage and work with EECA to

identify a number of prudent and good practice technologies, controls, and energy efficient central plant to reduce current consumption levels. Early indications are that a collective reduction in energy consumption of between 5-40% is achievable.

50. Productivity gains: It is expected that some benefits relating to improved productivity will be realised through reduced absenteeism, reduced staff turnover, and improved staff wellbeing (through improvements, for instance, in heating and cooling of the accommodation) due to improved environmental comfort. However, since there is no widely agreed approach for assessing and quantifying expected gains in these areas no value has been assigned to these benefits and they have not been included in the cost benefit analysis.

51. It is also estimated that agencies have collectively saved the equivalent of up to $1.00m in reduced procurement and business case processes. Further savings will be achieved by agencies collaborating in the negotiations and contracting processes.

Benefits of the Preferred Solution

52. The key benefits of the preferred solution are:

Table 17: Key benefits of preferred solution

Benefits	Description
[redacted]	[redacted]
Improved agency effectiveness	The preferred option optimises effectiveness through co-location of agencies in a single site as opposed to the multiple sites that agencies currently occup
Enhanced building quality and standards	All new sites will be significantly better in terms of quality, efficiency and safety standards than the status quo. This will provide greater employee safety and satisfaction and also business continuity capability.
Minimal disruption	With the exception of the [redacted] this option minimises the disruptions associated with re-location, while also minimising any lease falls prior to occupation

Dis-benefits of the Preferred Solution

53. The key dis-benefits of the preferred solution are:

Table 18: Key dis-benefits of preferred solution

Dis-Benefits	Description
MoE expectation	Education had successfully completed a procurement and business case process and were well underway with the Stout St negotiation before this site was assigned to MBIE as part of this process

Dis-Benefits	Description
[redacted]	

Key Risks

54. The key risks of the preferred solution are:

Table 19: Key risks of preferred solution

Risks	Probability (L, M, H)	Impact (L, M, H)	Description
Stout St completion	L	M	The Stout St development is on the critical path and any significant delays will place additional pressures on both [redacted] and MoE who have occupation and critical decant dates associated with the completion of this building.
Securing short-term leases creates negative terms and conditions for the Crown	M	M	[redacted], MoE and [redacted] will all require short-term lease extensions not currently linked to a right of renewal. This will require careful management with the landlords to ensure appropriate terms and conditions for the Crown.
33 Bowen St works	M	L	This building (MBIE's current head office building) has identified safety works that need to occur to bring it up to an appropriate level. This will require careful negotiation with the owners to ensure that it is done without any significant disruption to occupancy for the Crown and that the terms and conditions for having the work done are acceptable for a long-term occupation by MoE.
[redacted]	M	M	[redacted]

Estimated Monetary Benefits

55. The majority of the monetary benefits achieved by the participating agencies are as a result of adopting a footprint consistent with 13m^2 per workpoint. Further benefits are achieved through applying economies of scale, better efficiencies from buildings and identifying future lower cost accommodation options.

56. Analysis has been undertaken to determine monetary benefits which are shown in the following table:

Table 20: Estimated Monetary Benefits

Main Benefits	Who Benefits?	Direct or indirect?	Description
Costs avoided	Participating agencies	Direct	The benefits of agencies participating in a collaborative approach to achieve collective benefits as opposed to engaging the market independently
Economies of scale	Participating agencies	Direct	Joint procurement by agencies allows them to leverage their scale to achieve better prices than they would have otherwise received if they had procured independently.
Reduce the m^2 per workpoint to $13m^2$	Participating agencies	Direct	The benefit of agencies reducing their average footprint per FTE to $13m^2$.
Non-centre facing site	Participating agencies	Direct	The benefit of locating non centre facing staff in a non-centre facing site.
Leveraging surplus space leased by State Services	Participating agencies	Direct	Agencies leverage surplus space already leased by State Services as opposed to extending existing leases or leasing new space.
Reduced procurement costs for agencies	Participating agencies	Direct	The joint procurement process has resulted in these costs being shared by the agencies as opposed to each agency procuring their accommodation independently. Includes the cost of market engagement, negotiations, and contracts etc.
Reduced cost of business case development	Participating agencies	Direct	Joint approach means the costs of preparing agency business cases have been reduced.
New sites offer greater efficiency in occupancy costs	Participating agencies	Direct	More efficient buildings will reduce the utility costs agencies pay for areas such as lighting and HVAC, mitigating rising OPEX costs.

Intangible Benefits and Costs

57. Some intangible benefits (and costs) that could not be reliably quantified in monetary terms were identified and are described in the table below:

Table 21: Intangible Benefits and Costs

Main Benefits	Who Benefits?	Direct or indirect?	Quantitative or Qualitative?	Description and Possible Measures
Eliminate competition between agencies	Participating agencies	Direct	Qualitative	The benefits of agencies collaborating in the procurement process as opposed to competing with each other for preferable sites.
All staff are co-located in a single site	Participating agencies	Direct	Qualitative	Staff located in a single site improves agency effectiveness as opposed to some staff being located in multiple or non-centre facing sites.

Main Benefits	Who Benefits?	Direct or Indirect?	Quantitative or Qualitative?	Description and Possible Measures
Sector or collaborative hubs	Participating agencies and sectors	Direct	Qualitative	Co-location of sector agencies in a single site or in close proximity to each other to achieve service delivery outcomes. Possible measures: • Improved output delivery • Common procurement
Government Workplace Standards	Participating agencies	Direct	Quantitative	Standard office and furniture configurations allow space optimisation and allows the easy transfer of staff between sites

Sensitivity Analysis

58. Once commencement rents are established there is a high level of certainty of both the timing and value of the costs associated with the options and the costs are therefore inflexible to the extent that the legal documents (the development agreement and lease) prescribe when and how the variables can change.

59. Sensitivity analysis was undertaken based on changing the discount rate from 6.5% to 8% to see what affect this had on the options developed. The results did not change. Sensitivity analysis was also done on the commencement rents (+/- 10%). This was to highlight the fiscal effect that any incentives provided by developers could have on whole-of-life costs, vis-à-vis additional increases to the total costs after negotiations due to changes in scope, again the results did not change. These are shown in in Appendix 5.

Commercial Case – Preparing for the Potential Deal

The Negotiating Strategy

60. The PMCoE and agencies now need to negotiate terms with the preferred suppliers. To this end a negotiating strategy is being developed with the following objectives:

    a. to maximise the value for money for the participating agencies; and

    b. negotiate terms and conditions that allow the preferred sites to be leveraged as part of a "strategic footprint" for States Services in the WCBD.

61. The market sees the Crown as a trusted 'blue chip' tenant. The Crown typically secures long-term leases at minimum risk to the landlord, which is very favourable to them especially in the uncertain economic climate that exists today. This supports the Crown's position during negotiations and will be leveraged to secure the best terms and conditions for the participating agencies. The negotiating strategy is being developed to clarify the roles of PMCoE and agencies in the negotiations, and document the methodology. The strategy is being prepared in consultation with MBIE's Procurement business unit.

62. The market objective of the PMCoE over the medium term is to manage prices by reducing aggregate demand across the State Services. Long term this strategy may mitigate market increases in rental costs on a like-for-like basis.

Key Commercial Terms of the Preferred Solution

63. The key commercial terms for items such as building addresses, timings, rent review mechanisms, leased area and commencement gross rents can be found in Appendix 6.

Contractual Issues and Accountancy Treatment

64. Leases will be between agencies and vendors and will be based on the Public Sector Standard Lease (PSSL) currently being finalised by PMCoE. The terms of each lease will be negotiated through a Tenant Advocate engaged by PMCoE to achieve the best terms and conditions for each agency.

Key Contractual Clauses

65. To ensure that the participating agencies are able to leverage the sites as part of a strategic footprint to benefit the wider State Services, the following key contractual clauses are proposed:

    - The ability of the lessee to sub-let surplus space to other Crown agencies;
    - The ability of the lessee to assign the lease to other Crown agencies;
    - The ability for the lessee to have first option over any additional space which becomes available within the building; and
    - The ability for the lessee to reduce the amount of space leased during lease renewal.

Accountancy Treatment

66. The leases will be accounted for in accordance with NZ IAS 17.

Financial Case – Affordability and Funding Requirements

Lease and Fit-Out Costs

Revenue Requirements

67. For the preferred solution, the commencement occupancy cost[23] for the first full financial year of the new leases, FY 18/19, is $56.02m. The current funding provision for total occupancy cost for FY 12/13 is $55.87m. This funding provision is forecast to increase by $3.01m to $58.88m by FY 18/19, creating a nominal saving of $2.86m.

68. From a collective perspective, the cumulative position of baseline variances (the difference between baseline funding provisions and the occupancy cost of the preferred solution) over the next sixteen years is positive by $0.26 million. A nominal shortfall of $35.54 million occurs between FY 28/29 and FY 31/32 at an average of $8.89 million per annum, creating the total nominal shortfall of $35.28 million. A breakdown of each participating agency's funding profile can be found in Appendix 7.

Capital requirements

69. The fit-out cost is made up of three components:

- Main contractor hard fit-out: includes items such as modifying heating and air conditioning equipment for the sub-divisional hard fit out; installing fire protection equipment, lighting, plumbing and draining;
- Sub-divisional hard fit-out: includes items such as the installation of tenant doors, and enclosed meeting rooms (including the computer room); joinery for utility areas; security cables and equipment; and IT networking cables and equipment;
- Soft fit out: includes items such as desks, chairs and other furniture; fixtures like refrigerators and microwaves; and relocation and installation of equipment such as multifunctional devices.

70. The bulk of the fit-out costs are not for discretionary items but for items that are critical to the completion of the building before a tenancy can commence. Work point furniture (i.e. desks, chairs, at-desk storage) and meeting room furniture is generally treated as part of the soft fit-out of accommodation and is, to some extent, optional.

71. The estimated average costs for a modest but durable fit-out suitable for the participating agencies is $1,240 per m^2 or $108.55m for the preferred solution. The extra depreciation generated for the preferred option is included in the nominal shortfalls noted in the Revenue Requirements paragraph above.

Financial Summaries

72. The tables below provide a financial summary for the preferred option. There are three tables for the preferred option reflecting the low, medium and high rent rates. The assumptions underpinning the costing model are set out in Appendix 4. The model and assumptions have been reviewed by The Treasury. No issues were identified.

[23] Occupancy cost = Gross Rent + Utilities + Other + fit-out depreciation

73. The operating costs include net rent, property operating expenses, utilities, moving and professional fees.

Impacts on the financial statements

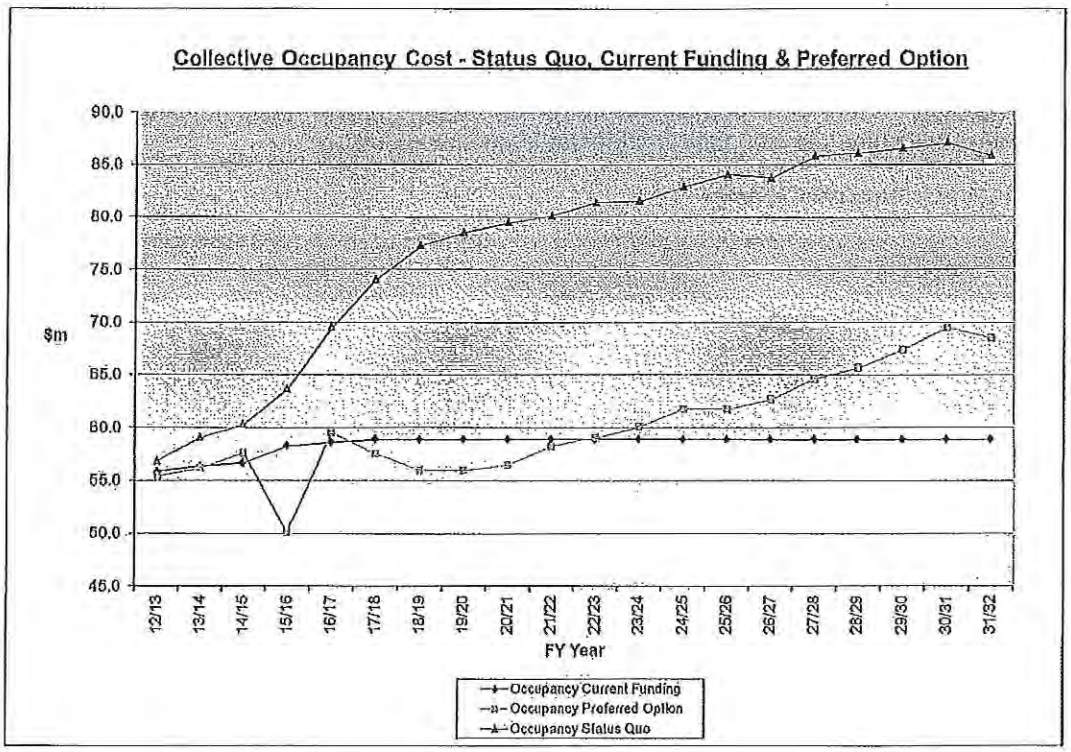
74. The financial impacts of the project over the 20 year life of the leases are shown below:

Table 22: Collective Funding Arrangement

	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20-31/32	TOTALS
PREFERRED SOLUTION - 87,522 m²									
Operating ($m)									
* Gross Rent	41.34	40.30	42.27	37.04	42.50	42.56	41.40	637.37	924.78
R&M	2.42	2.39	2.31	1.92	2.16	1.99	1.88	30.76	45.83
Cleaning / Hygiene	2.75	2.71	2.62	2.18	2.46	2.26	2.14	34.88	51.99
Power	2.24	2.21	2.13	1.77	2.00	1.84	1.74	28.41	42.34
Security	0.50	0.49	0.47	0.39	0.44	0.41	0.38	6.28	9.36
Total Occupancy Cost	49.26	48.10	49.79	43.30	49.56	49.05	47.64	737.70	1,074.30
Other	0.39	2.54	1.65	0.65	1.47	0.00	0.00	0.49	7.19
Depreciation	5.78	5.57	6.19	6.19	8.51	8.51	8.48	73.59	122.81
Sub-total	55.43	56.21	57.63	50.14	59.54	57.56	56.02	811.77	1,204.28
Existing operating provision (inc depn)	55.87	56.38	56.68	56.27	58.65	58.88	58.00	765.40	1,169.00
Shortfall (-) to be funded from baseline	0.44	0.17	(0.95)	6.13	(0.89)	1.32	2.06	(46.37)	(35.28)
Capital ($m)									
Main contract & subdivisional hard f	8.82	13.50	14.22	19.89	10.27	0.00	0.00	17.52	84.22
Soft fitout	2.85	4.43	5.63	6.19	3.20	0.00	0.00	2.04	24.33
Total to be funded from cash reserves	11.67	17.92	19.86	26.08	13.47	0.00	0.00	19.56	108.55

75. The expected rental costs (and associated operating costs for property) are forecast to rise significantly against baselines that are fiscally constrained. Whilst a total shortfall (in nominal terms) of $35.28m is expected over the 20 year term, it is significantly lower than the current status quo option with a projected shortfall of $375.14m. The preferred solution therefore reduces the total operating funding requirement by $339.86m. This is illustrated in the following graph:

Diagram 5: Occupancy Cost - Status Quo, Current Funding & Preferred Option



76. The graph above displays some significant shifts in costs between FY 14/15 and FY 18/19. The reasons for this are as follows:

    a. The [redacted] reduction from FY 14/15 to FY 15/16 is primarily as a result of the lease tails expiring for [redacted] and MoE, and consolidation of [redacted];

    b. [redacted]

    c.

Funding Arrangements

77. This section outlines how each agency will meet the lease and fit out costs for its future head office accommodation.

78. A summary of the funding implications for each agency as a result of implementing the preferred solution, as compared to the status quo, is as follows:

Table 23: Funding Arrangement by Agency

Expense Type	MOE	
	SQ	PO
Operating ($m)		
· Total Occupancy Cost	210.90	165.25
· Other	0.82	2.86
· Depreciation	34.48	21.36
Sub-total	246.20	189.47
Existing operating provision (Inc depn)	177.83	177.83
Shortfall (-) to be funded from baseline	(68.36)	(11.63)
Capital ($m)		
· Main contract & subdivs	27.54	14.91
· Soft fitout	5.25	4.76
Total to be funded from cash reserves	32.79	19.67

79. [redacted]

80. Agencies will meet these costs and benefits on a *"fall as they lie basis"*. Each agency's Chief Financial Officer (or representative) was engaged during the business case process. They confirmed their existing funding arrangements and also that they could fund their preferred solution from within current baselines. Cost pressures over time will be met by baseline savings in other areas.

81. [redacted]

Capital Costs

82. Capital costs, as highlighted in the table above, can be afforded from existing balance sheet provisions by reprioritising agency capital programmes. There will be no adverse impacts on forecast capital plans and this expense would be required within the 20 year period regardless of what accommodation solution is adopted.

83. The capital requirement of $108.55m for the preferred solution compares favourably against the status quo's $186.20m by $77.65m. The funding of this stream forms part of the overall operating funding requirement as shown in the table above. The bulk of the capital cost (main contractor hard fit-out and sub-divisional hard fit-out) has been written off over the initial lease terms. The soft fit-out cost has been written off over six years. Both write-off periods are consistent with current accounting policies and practices.

Management Case – Planning for Successful Delivery

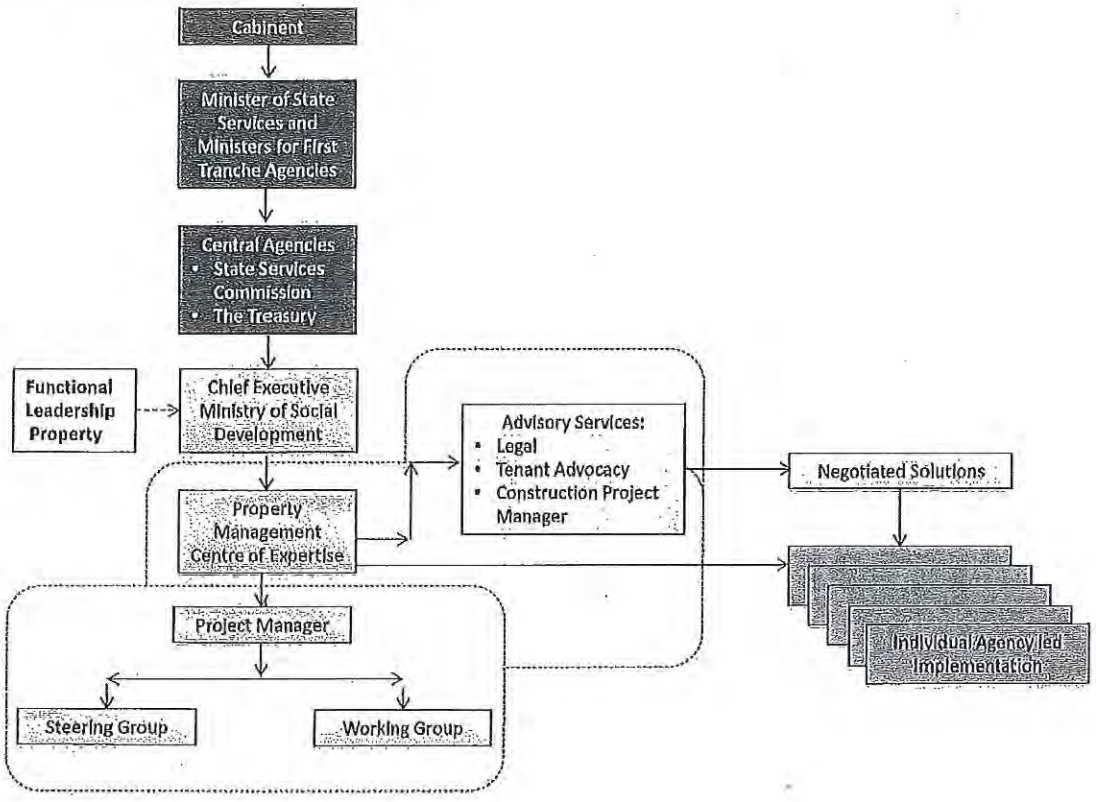
Project Management Planning

85. PMCoE will lead and manage the negotiations in partnership with the participating agencies. When these have been completed responsibility for implementation including change management, risk management and benefit realisation will transfer to the agencies. PMCoE will monitor implementation of the solution and realisation of the benefits by agencies.

86. The project management arrangements are being managed under a MSD tailored project management methodology which is underpinned by the Prince 2 project management framework.

87. Participating agencies are represented at all parts of the governance structure illustrated in the following diagram:

Diagram 6: Project Governance Structure



88. The following table describes the roles and responsibilities of each group identified within the previous diagram.

Table 24: Roles & Responsibilities

Role	Responsibilities
Cabinet	• Initial approval to implement the preferred solution
Minister of State Services	• Recommend and support the analysis & solution that has been identified to Cabinet
Minister of Finance	• Approve Development Agreements with respective responsible Minister
Ministers for Participating Agencies	• Endorse and approve the Development Agreements on behalf of Cabinet • Note Ministry-specific content for preferred solution
States Services Commission	• Provide advice to ensure practices and processes are compliant with Public Sector good practice. • Review and endorse the Cabinet Paper and Business Case for Participating Agencies.
The Treasury	• Provide advice and support to ensure thorough analysis within the Business Case in accordance with the Better Business Case framework. • Ensure financial analysis is robust and compliant with Public Sector good practice
Chief Executive – MSD	• Provide Functional Leadership for Property across the State Services
Property Management Centre of Expertise	• Lead negotiations for [redacted] and MoE. • Develop the Crown's property strategy to provide a framework to implement cost effective property solutions • Continue to develop the WCBD property strategy to enhance cost effective property solutions • Upon completion of negotiations the PMCoE will be responsible for monitoring and evaluating the solutions against the Business Case (benefits realisation) and reporting results back to agencies and Ministers
Project Manager	• Implement a project management plan for delivering the preferred solution. • Liaise with agencies and resolve any outstanding issues.
Steering Group	• Represent their agency's strategic views and requirements during implementation • Inform negotiation strategy for agency-specific site
Working Group	• Represent their agency's operational views and requirements during negotiations • Review and endorse identified outcomes
Advisory Services – Legal	• Provide legal advice in relation to Development Agreements and Deeds of Lease • Contracted by PMCoE
Advisory Services – Tenant Advocacy	• Lead advocacy (with PMCoE) for agencies as part of negotiations with developers/ landlords • Contracted by PMCoE
Advisory Services – Construction Proj Mgr	• Manage the design, fit-out, budget within tolerances and contracts during implementation of the preferred solution for the participating agencies. • Contracted by the individual agency
Individual Agencies	• Once solutions have been negotiated - each participating agency will take responsibility for implementing the new solution. • Agencies will need to develop, communicate and implement a change management plan based on the negotiated solution

89. The key project milestones (indicative) are summarised below:

Table 25: Project Plan Provisional Milestones

Activity	Timeline
Development Agreement Commercial Terms and Frozen Layout	Nov 2012 – Mar 2013
Negotiation Report back to Ministers	Apr 2013
Detailed drawings and integrated construction programme	Aug 2013
Main Contractor fit-out practical completion	2014-2016
Tenant sub-divisional fit-out and relocation	2014-2016
Tenant make good on existing sites	2014-2016

90. PMCoE will monitor the implementation of the preferred option and benefit realisation. Implementation reviews are initially planned at monthly intervals, commencing November 2012.

Change Management Planning

91. As part of change management planning, PMCoE will be responsible for an overarching communications strategy. Within this context agencies will manage the development and delivery of communications within their agency and with external stakeholders. Agencies will also be responsible for the development of individual change management plans to support the transition to their property solution.

Benefits Management Planning

92. The benefit profiles will be different for each agency. The fiscal benefits will be retained by agencies and summarised in the following table:

Table 26: Benefit Register

Benefit Description	Expected Level	Likely Timing	Actions required to secure the expected benefits
Reducing the amount of office accommodation leased by the participating agencies by adopting 13m^2 per FTE.	Agencies currently lease 124,447m^2. Condensing their footprint means only 87,522m^2 will be required	From 2013 onwards	Secure leases based on 13m^2 per workpoint
Reduced demand will create surplus supply in the market, leading to flattening or reduced prices on a like-for-like basis.	Unable to be determined for the purposes of the business case.	Benefits will take time to filter through lower market prices, may impact second tranche agencies (potentially 2016)	Secure leases based on 13m^2 per workpoint Create higher density in other current State Services leases to absorb more agencies internally without requiring new leases
Common workplace standards will maximise the effective use of the reduced workspace and reduce the cost of relocating State servants within Wellington.	Time Relocation costs	Benefits will take time to develop as participating agencies and subsequent agencies change to new standards	Develop and implement Government Workplace Standards.

Benefit Description	Expected Level	Likely Timing	Actions required to secure the expected benefits
Economies of scale applied in procurement of property, capital fit-out and operating services achieve greater efficiencies for the Crown.	Services' costs Fit-out costs	Between 2013 – 2033	Leverage Crown scale to negotiate competitive prices or enter into existing syndicated contracts
Joint approach to procurement and business case process avoids duplication of costs by participating agencies.	Collaboration in the production of: Procurement, Business Case, Negotiations, Legal	Benefits will commence from 2012	Joint approach.
Greater co-ordination and operational effectiveness provided by reducing the number of sites agencies occupy	Difficult to quantify the level of these benefits. Travel time and costs reduced, increased productivity	Benefits will commence from 2013 when agencies start transition to new leases	New leases need to ensure capacity for all agency business units.
Improved safety quality and/or location of property improve retention of staff by the agencies.	Retention through historical HR reports and internal surveys	Benefits will commence from 2013 when agencies start transition to new leases	Ensuring new leases meet appropriate building safety requirements. Safety assessment through Engineering Reports.
Centralised procurement and management of property creates a prioritised and coherent allocation of the Crown's property portfolio, including reallocation of surplus space.	Difficult to quantify the level of these benefits. Qualitative assessment based on existing footprint to new footprint	Benefits will commence from 2013 when agencies start transition to new leases and PMCoE through functional leadership property commence a State Services property management portfolio	PMCoE become centralised property managers for the State Services. All State Services' property leases are reported and recorded with PMCoE

Risk Management Plan

93. The following table summarises the risks and the mitigation strategies during implementation:

Table 27: Key Risks during Implementation

Risk Description	Impact (L / M / H)	Probability (L / M / H)	Risk Management Strategies
Mandated decisions by Functional Leadership Property differ from individual agency chief executive wants.	M	M	• Maintain agency input into process throughout.
NZ Public, PSA and employees perceive greater density of government office accommodation as a 'battery hen' approach.	L	M	• Highlight adoption of similar standards in UK Government and NZ private sector successfully. • Promote Tower Block Concept Floor as a successful example currently in use.

Risk Description	Impact (L / M / H)	Probability (L / M / H)	Risk Management Strategies
Centralisation of property management functions within PMCoE reduces the customer focussed approach and responsiveness required by agencies.	L	L	• Ensure accountabilities for PMCoE's performance are put in place against KPIs. • Undertake regular performance reviews, both internally and externally. • Continual performance enhancements.
Relocation to new property sites may affect employees and their families (positively or negatively).	M	M	• Ensure timelines are outlined as early as possible to mitigate changes. • Negotiate changes internally with affected staff.
Further reductions to property footprints could occur after new leasing options are in place affecting office and operating requirements (e.g. Government Shared Services).	L	M	• Application of the strategic portfolio approach to ensure any CBD-based surplus space is able to be reallocated to future tranches of Wellington agencies.
Any significant movement of Crown personnel away from CBD may curtail investment in current or new buildings.	L	L	• Highlight importance of centre-facing staff remaining in CBD and greater potential for private sector to accommodate themselves in the CBD.
After negotiations have concluded, total whole-of-life costs exceed those currently being forecasted.	M	L	• Have provisioned 5% leeway on NPV WOLC • Have comprehensive RfP responses • Detailed negotiation strategy

Project Evaluation

94. The process for developing a multiple agency property solution is both unique. The process that has been adopted can be broken down into several stages including RFP stage, Business Case development, Negotiations (Development and Lease Agreements) and implementation. It is proposed that a "Lessons Learnt" exercise will be undertaken shortly after the completion of a significant process within the overall project. These will be done so that future iterations of the framework which is being developed here is well informed and potential issues are resolved and/ or efficiencies are incorporated into future iterations.

95. Project evaluation dates will also be identified for analysis of each specific agency solution to assess the benefit of the actual agency solution against what was planned through the Business Case.

Recommendations

30. The business case recommends that Cabinet:

a. **note** that the Property Management Centre of Expertise (PMCoE) and the participating agencies have identified a preferred head office accommodation solution, following a joint procurement and business case process;

b. **approve** the attached business case and the preferred accommodation solutions for the Ministries of [redacted] Education; [redacted];

c. **delegate** to Joint Ministers (Minister of Finance and responsible agency Minister) the authority to agree to the final investment decision for each agency's accommodation [redacted] within a 5% variance of the collective anticipated NPV whole of life costs of $592.48 million (Cabinet authority is required for investment decisions with a whole-of-life cost over $25 million, as per Cabinet Office Circular CO (10)2);

d. **direct** the Chief Executive of the Ministry of Social Development, in consultation with the Ministries of Education, [redacted] to negotiate development agreements for the preferred buildings and report to those Ministers delegated in recommendation 3 above for approval;

e. **direct** the Chief Executive of the Ministry of Social Development to negotiate a development agreement with alternate short-listed suppliers from the PMCoE-led request for proposal process, in the event that an agreement cannot be reached with a preferred supplier;

f. **invite** the Minister of State Services to release media statements in relation to this co-ordinated procurement and business case process within the context of functional leadership;

g. **note** that despite projected increases for property-related costs across the 20 year appraisal period, the preferred solution:

v. does not require additional Crown funding;

vi. delivers a collective shortfall (in nominal terms) of only $73.98 million which agencies have committed to funding within current baselines over the next 20 years (see Appendix 7);

vii. achieves cost avoidance of $339.86m compared to the projected status quo;

viii. [redacted]

h. **note** that in addition to the benefits above, it is also estimated that agencies have collectively saved the equivalent of approximately $1 million in reduced procurement and business case processes. Building owners have also benefited from the streamlined process to respond to multiple government agencies;

i. [redacted]

j. **note** that the PMCoE will undertake a project in 2013 to evaluate the costs and benefits of occupying sites in lower cost locations outside the Wellington Central Business District for non-centre facing functions;

k. **note** that if there are any reductions to the area requirements for CBD-based head office accommodation for the participating agencies, the PMCoE will be able to identify other government agencies to occupy this space, thereby mitigating the cost to the Crown;

l. **note** that the preferred accommodation solution offers buildings with greater levels of safety and standards than those already occupied by the participating agencies, improving staff safety and reducing the risk to business continuity; and

m. **note** that collectively the participating agencies have had a reduction of 30% in their property footprint (124,447m^2 to 87,522m^2), and will occupy the following space as part of the preferred solution:

vii. [redacted]

viii.

ix.

x.

xi. MoE: Current footprint: 21,179m^2; Preferred option footprint: 13,179m^2; and

xii. [redacted]

Appendix 1: Chief Executive's Letter

GOVERNMENT
Property
Management
CENTRE of EXPERTISE

Xxx October 2012

Minister of State Services

Single Stage Business Case – Wellington Office Accommodation Strategy

This business case is the first collaborative procurement and business case process led by the Property Management Centre of Expertise, in partnership with the Ministries of [redacted] Education, [redacted] and the [redacted] to improve value for money outcomes for agencies.

I confirm that:

i. I have been actively involved in the development of the attached investment proposal through its various stages

ii. I accept the strategic aims and investment objectives of the investment proposal, its functional content, size and services

iii. the indicative cost and benefit estimates of the proposal are sound and based on best available information,

iv. the financial impact of the proposal can be managed within agency baselines, and

v. key risks have been identified and relevant mitigation strategies are in place to address these.

This letter fulfils the requirements of the current Treasury guidance on Better Business Cases for Capital Proposals. Should these requirements or the key assumptions on which this case is based change significantly, revalidation of this letter of support should be sought.

Yours sincerely

Brendon Boyle
Chief Executive
Ministry of Social Development and
Functional Leader Property

Appendix 2: Stakeholder Analysis

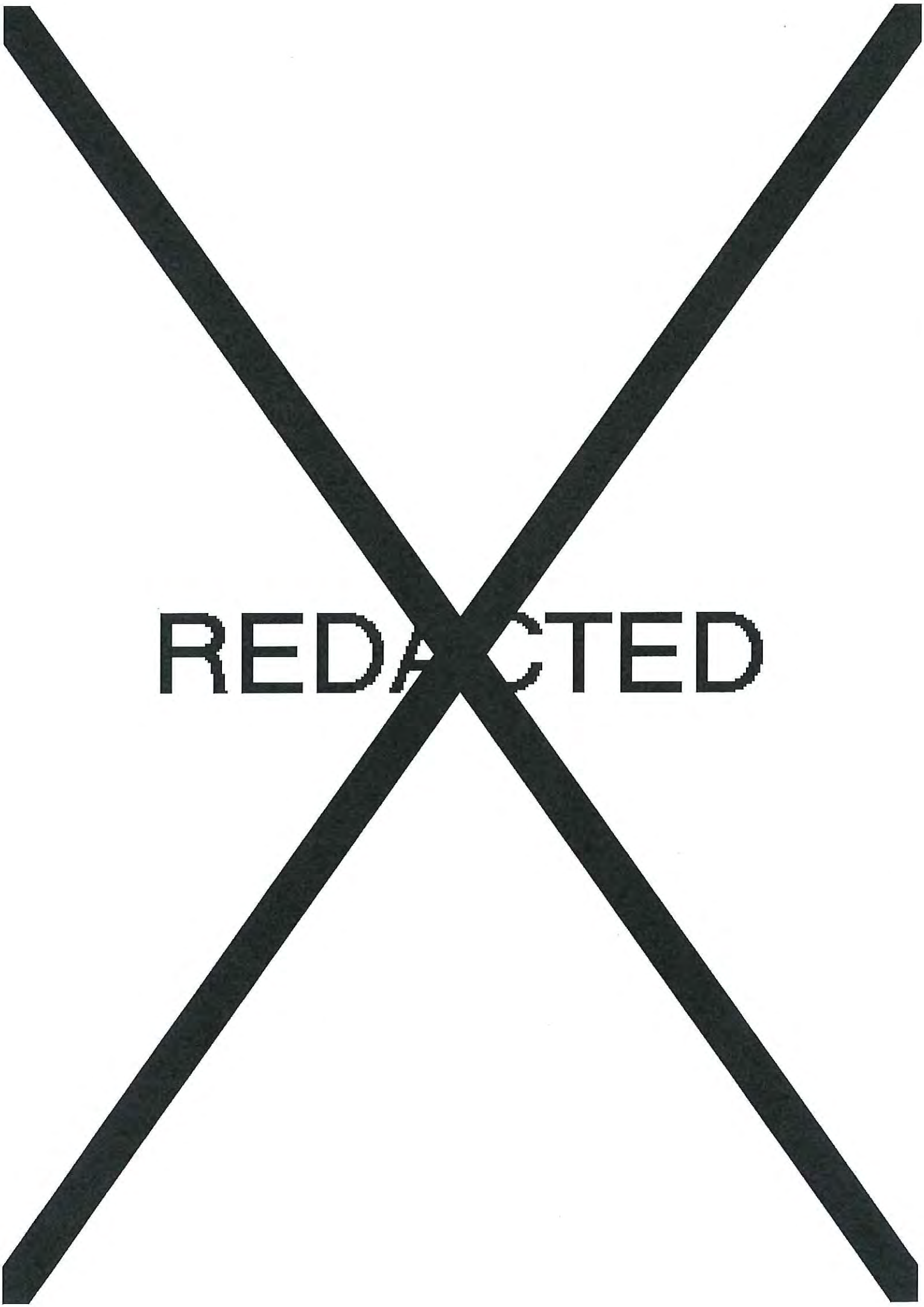
Stakeholder	Relationship to the Proposal	Key Linkages	Degree of Influence	Current Interest	Stakeholder Management Strategy
Internal Stakeholders					
Chief Executive Ministry of Social Development)	Functional leader of property strategy, and the face of this project and responsible for leading briefings to participating agency Chief Executive Officers. Interest in maximising value from office accommodation across State Services.	Ministers, Participating Agency CEs, PMCoE	High	High	Keep well informed via project governance model and briefings as and when required.
Dep Chief Executive (PCR) Ministry of Social Development	Senior Responsible Owner for project and lead internal and external briefings. Interest in maximising efficiency from office accommodation across State Services and maximising efficiency from MSDs accommodation solution	CE MSD, PMCoE, Steering Group	High	High	Keep well informed via project governance model and briefings as and when required.
Participating Agency Chief Executives	Leader of change and communication internally. Interest in maximising efficiency from individual agency's accommodation solution and impact on their capability and performance.	Steering Group CE MSD Dep CE MSD Responsible Ministers	Moderate	High	Provide regular updates on progressing the preferred solution and detailed information regarding each individual agencies solution
Steering Group	Provide agency informed project advice. Have an interest in ensuring agency alignment to wider strategy and maximising value for money for their agency.	Participating Agency CE's Working Group	Moderate	High	Regular Steering Group workshops
Property Management Centre of Expertise (PMCoE)	Business Owner – Maximise efficiency and effectiveness from office accommodation across the State Services	Steering Group Working Group CE MSD Dep CE MSD	High	High	Regular engagement with stakeholders. Preparation of information and robust recommendations to inform stakeholders
Agency Property Managers (Working Group)	Support and inform project. Interested in Project processes and time lines and impacts on agency's normal operations.	PMCoE Steering Group	Low	High	Representation on Working Group Regular Working Group meetings Regular updates
Participating agency Chief Financial Officers	Provide advice and information to support project. Interest in financial impacts of property solution for their agency.	PMCoE Steering Group Working Group	Low	Moderate	Updates around financial analysis and negotiation results.
Participating agency employees	Prepare to shift to new property solutions. Interested in impact on their physical location and on their final working environment.	Agency Ces Steering Group	Low	Low	Update when lease agreements and transition dates are finalised.

External Stakeholders					
Cabinet Ministers	Formal decision-making body. Interest in impacts to Crown funding, expenditure and risks	Treasury, Functional Leader, Agency Chief Executives	High	High	Provide regular briefings that inform and secure on-going support
Responsible Ministers	Ownership interest in departmental management of assets and capability.	Agency Chief Executives	High	High	Provide regular briefings that inform and secure on-going support
Treasury	Oversight and project representation. Interested in ensuring compliance against State Sector best practice and maximising efficiency from office accommodation across the State Services.	PMCoE Working Group	High	High	Regular briefings and meetings to provide updates and information to support project
State Services Commission	Monitoring and compliance. Interested in ensuring compliance against State Sector best practice and monitoring implementation of Functional Leadership Property	PMCoE Responsible Ministers	High	Moderate	Briefings and updates as required
Media	Communicate messages to NZ public. Interested in knowing answers such as What is the purpose of the change? When are changes occurring and what are they? Who is impacted and how?	CE MSD Responsible Ministers	Low	Low	Prepare Communications briefings for public release
NZ Public	General interest (particularly Wgtn). Variable interests including impacts on people, environment, economy (local and national).	Media Responsible Ministers	Low	Low	Prepare Communications briefings for public release
PSA	Supporting Public Service employees during change. Interested in maintaining a fair, legal and transparent process for staff.	Media Responsible Ministers Agency CEs	Low	Moderate	Prepare briefings for PSA
Property developers / landlords	Commercial property providers. Supplying property solutions for participating agencies. Impact on demand for office accommodation in the WCBD.	PMCoE	Moderate	Moderate	Distribute RFP

Appendix 3: Long-List Option Identification and Assessment

Long List Option Identification and Assessment

Dimension of Choice:	Strategic Scoping Options					Options for sourcing Accommodation			Implementation Options		
Description of Option:	Status Quo	Joint Procurement	Joint Procurement + Standards	Joint Procurement + Standards + Surplus Space	Joint Procurement + Standards + Surplus Space + Non Centre Facing solution	Use surplus accommodation	Go to Market for accommodation	Combinations of each accommodation sourcing option	Lease Extensions	Surplus Space	Combinations of each implementation option
Investment Objectives											
To reduce the amount of office accommodation leased by Participating Agencies within Wellington.	Partial	Partial	Yes	Yes	Yes	Yes	Partial	Yes	Partial	Yes	Yes
To minimise the cost per workpoint for office accommodation occupied within Wellington	Partial	Partial	Yes	Yes	Yes	Yes	Partial	Yes	Partial	Yes	Yes
To optimise the use of office space leased by Participating Agencies in Wellington	No	No	Yes	Yes	Yes	Yes	Partial	Yes	Partial	Yes	Yes
To improve the flexibility and responsiveness of the government portfolio.	No	Partial	Partial	Yes	Yes	Yes	Partial	Yes	Partial	Yes	Yes
Utilise the property solution to better enable agency, sector and All ofGovernment business outputs	No	Partial	Partial	Yes	Yes	Yes	Yes	Yes	Partial	Yes	Yes
To improve and maintain the building safety quality across the Participating Agencies.	Yes	Yes	Yes	Yes	Yes	Partial	Yes	Yes	Partial	Partial	Yes
To better facilitate the effectiveness and increase the efficiencies from common property related procurement and ICT functions delivered as part of the property solution.	No	No	No	Yes	Yes	Partial	Partial	Yes	Partial	Yes	Yes
Critical Success Factors											
CSF 1: Strategic fit and business needs	No	Partial	Yes	Yes	Yes	Yes	Yes	Yes	Partial	Yes	Yes
CSF 2: Potential value for money	No	Partial	Partial	Yes	Yes	Partial	Yes	Yes	Yes	Yes	Yes
CSF 3: Potential achievability	No	Partial	Partial	Yes	Yes	No	Yes	Yes	Partial	Yes	Yes
CSF 4: Service provider capacity and capability	Partial	Partial	Yes	Yes	Partial	Yes	Yes	Yes	Yes	Yes	Yes
CSF 5: Potential affordability	Partial	Partial	Yes	Yes	Yes	Partial	Yes	Yes	Yes	Yes	Yes
Overall Assessment:	No	No	No	Partial	Partial	No	Partial	Partial	Partial	Yes	Yes
Status Quo option	Several of the investment objectives will not be achieved if we maintain the status quo hence the option is discounted										
Combination 1	Scoping Option = Joint Procurement + Standards + Surplus Space + Non Centre Facing Solution; Options for Sourcing Accommodation = Combination; Implementation Option = Combination										
Preferred Way Forward	Scoping Option = Joint Procurement + Standards + Surplus Space; Options for Sourcing Accommodation = Combination; Implementation Option = Combination										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Appendix 5: Sensitivity Analysis on CBA

Commencement Rents + 10%

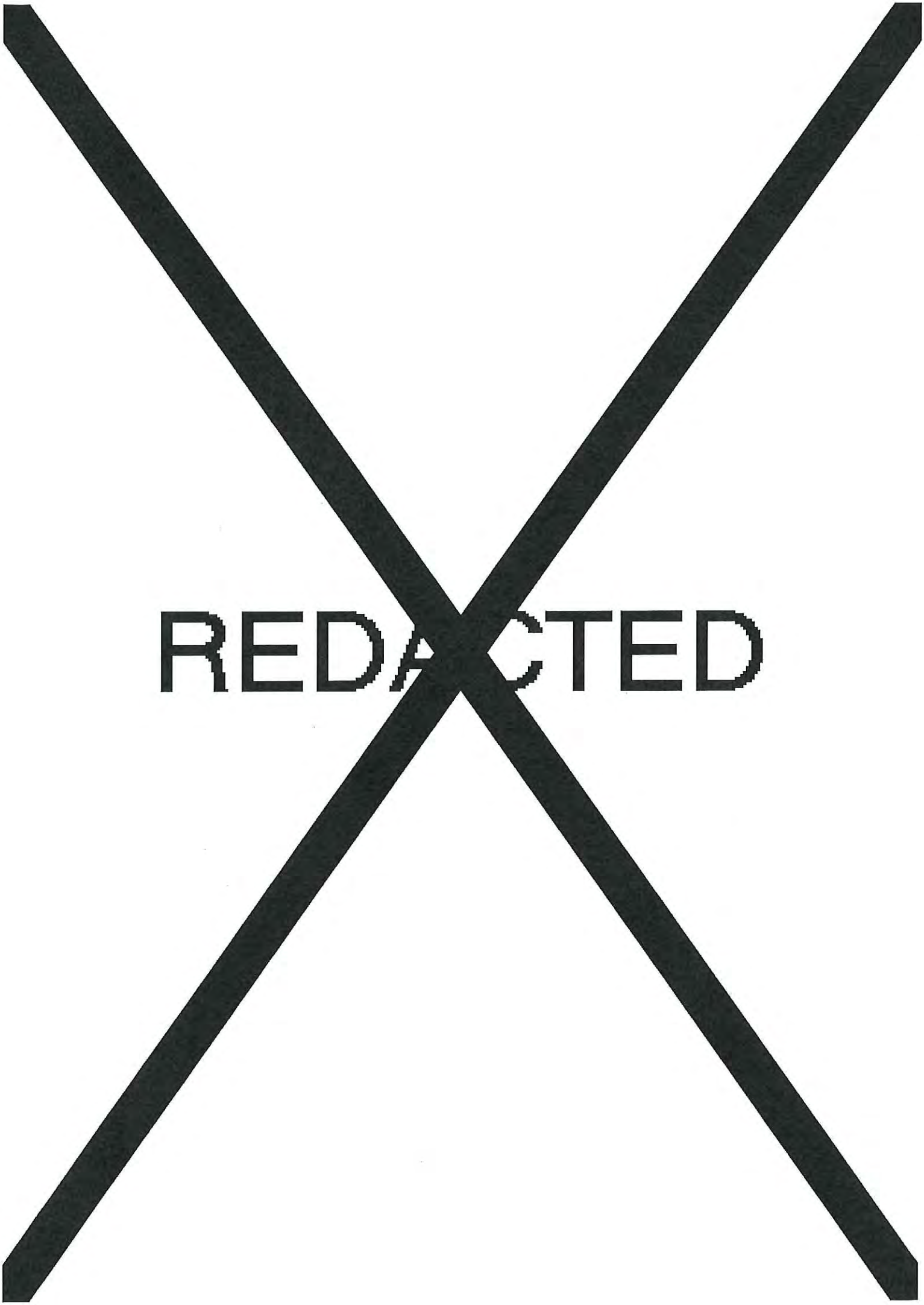
	$m						
Appraisal period (20 yrs max) FY 12/13 - FY 31/32	Status Quo	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Operating costs >> *Area Leased* m^2	*124,447*	*82,891*	*87,522*	*89,718*	*84,290*	*82,891*	*87,522*
Made Up of:							
Occupancy	1,323.36	1,068.72	1,087.94	1,139.01	1,104.50	1,071.16	1,121.36
Other	7.22	7.33	7.18	6.98	5.33	5.18	8.03
Total	1,330.58	1,076.05	1,095.12	1,146.00	1,109.83	1,076.34	1,129.39
Capital costs	186.20	109.90	108.55	127.51	112.25	117.49	121.44
Whole of life costs (Real Terms)	1,210.64	950.04	963.92	1,017.07	975.38	956.98	1,002.02
Net Present Value (NPV @ 6.5%)	744.73	592.23	600.29	628.76	603.00	596.98	624.89
Net Present Value (NPV @ 8.0%)	679.48	542.31	549.56	574.70	551.32	546.62	572.30

Commencement Rents - 10%

	$m						
Appraisal period (20 yrs max) FY 12/13 - FY 31/32	**Status Quo**	**Option 1**	**Option 2**	**Option 3**	**Option 4**	**Option 5**	**Option 6**
Operating costs >> *Area Leased m²*	*124,447*	*82,891*	*87,522*	*89,718*	*84,290*	*82,891*	*87,522*
Made Up of:							
Occupancy	1,323.36	1,046.96	1,064.65	1,106.31	1,079.21	1,048.95	1,097.11
Other	7.22	7.33	7.18	6.98	5.33	5.18	8.03
Total	1,330.58	1,054.29	1,071.83	1,113.30	1,084.54	1,054.13	1,105.14
Capital costs	186.20	109.90	108.55	127.51	112.25	117.49	121.44
Whole of life costs (Real Terms)	1,210.64	931.33	943.90	989.95	954.42	937.86	981.21
Net Present Value (NPV @ 6.5%)	744.73	579.30	586.51	611.10	589.30	583.74	610.59
Net Present Value (NPV @ 8.0%)	679.48	530.36	536.83	558.51	538.74	534.37	559.10

Appendix 6: Key Commercial Terms of the Preferred Solution

Building >>	33 Bowen
Owner	Talavera Property Group Limited
Tenant	MoE
Headcount / Workpoint	962
Location	33 Bowen Street
Lease area (m²)	13,625
Sub Let area (m²)	1,125
Occupied area (m²)	12,500
Current Footprint	21,179
New Density (m² per work point)	13.0
Reduction on current footprint (m²)	(7,554)
Footprint % Reduction	(36%)
Single tenant	No
Occupation date	Jan-16
Lease Type	Gross / TBC
Av Net Start Rent ($ m²)	0
Est Start Opex ($ m²)	0
Est Start Gross Rent ($ m²)	
Inducement	TBC
Rent reviews	TBC
Initial lease term	TBC
Rights of renewal	TBC
Flexibility	TBC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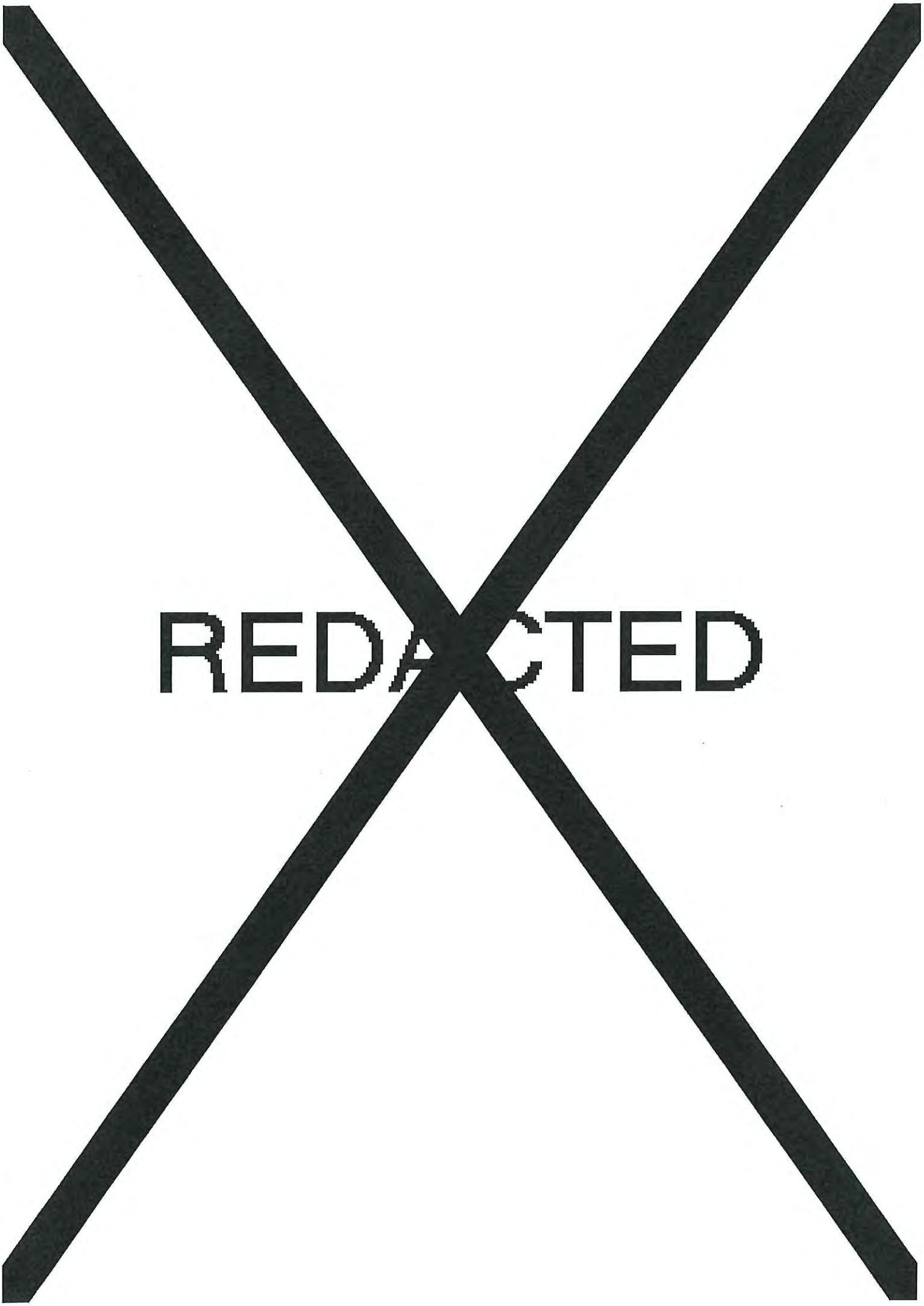
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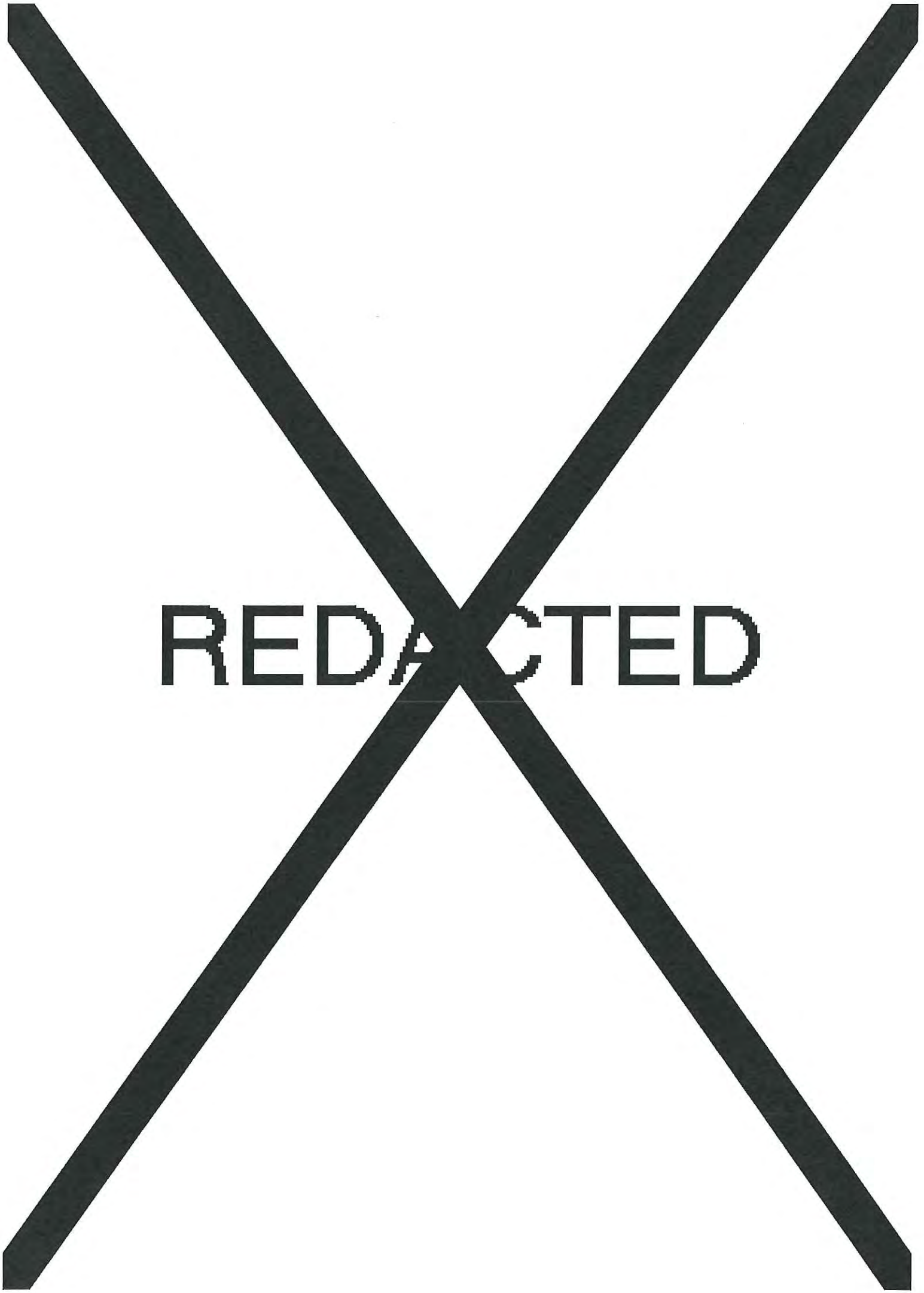
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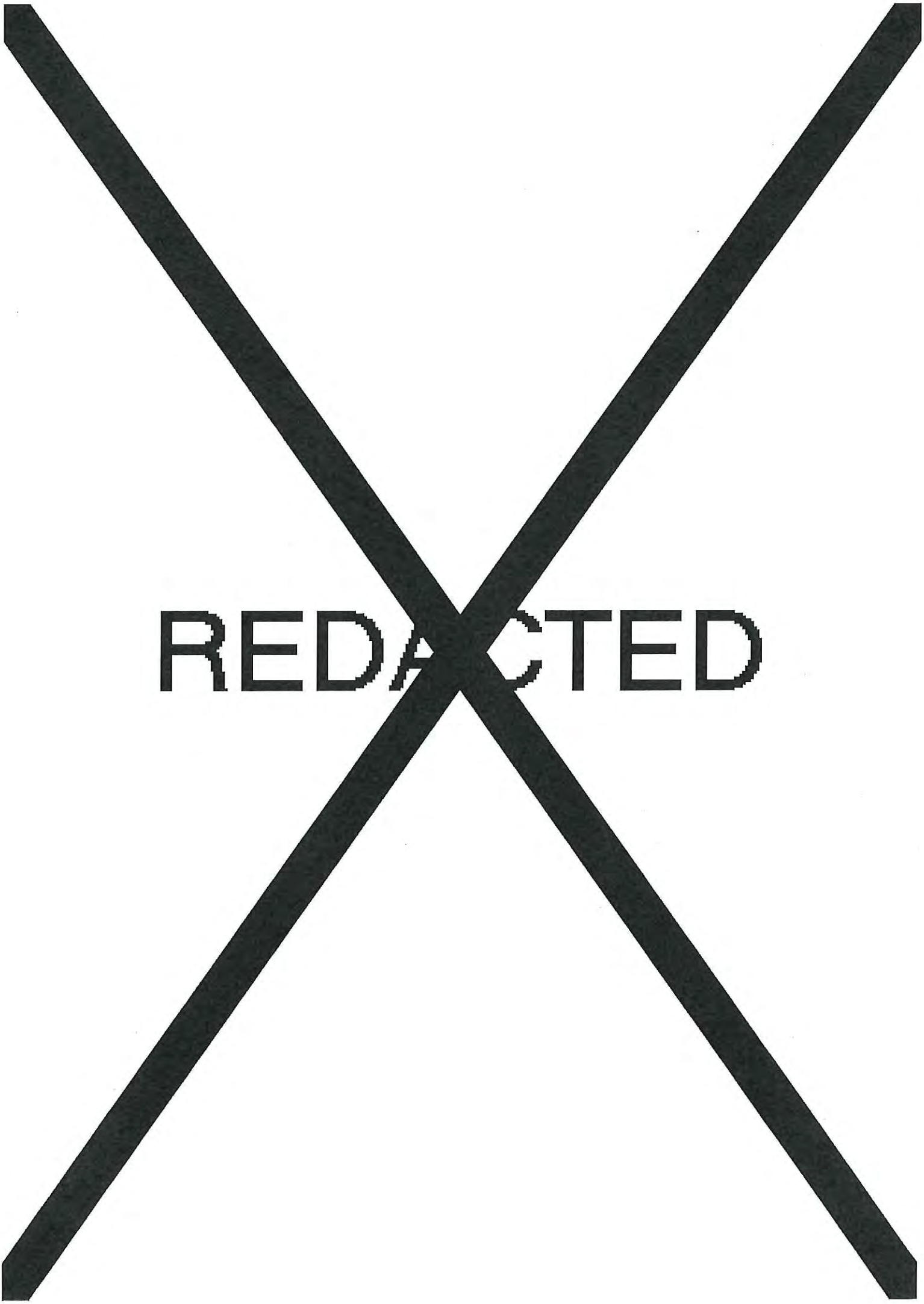
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MoE Funding Arrangements

FY	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	TOTALS
STATUS QUO - 21,179 m²																					
Operating ($m)																					
Gross Rent	7.28	7.31	7.34	7.45	7.87	7.90	8.02	8.48	8.51	8.64	9.13	9.17	9.91	9.93	9.87	10.02	10.59	10.63	10.79	11.40	179.55
R&M	0.43	0.44	0.45	0.46	0.47	0.48	0.49	0.50	0.51	0.52	0.53	0.54	0.55	0.56	0.57	0.58	0.59	0.60	0.62	0.63	10.50
Cleaning / Hygiene	0.39	0.41	0.42	0.44	0.45	0.47	0.48	0.50	0.52	0.54	0.55	0.57	0.58	0.61	0.64	0.66	0.68	0.71	0.73	0.76	11.12
Power	0.29	0.30	0.31	0.32	0.33	0.35	0.36	0.38	0.39	0.41	0.42	0.44	0.45	0.48	0.49	0.51	0.53	0.56	0.58	0.60	8.50
Security	0.04	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.06	0.07	0.07	0.07	0.07	0.08	0.08	0.08	0.08	1.24
Total Occupancy Cost	8.44	8.50	8.57	8.71	9.16	9.25	9.41	9.91	9.98	10.16	10.79	10.78	10.97	11.65	11.62	11.86	12.47	12.58	12.80	13.47	210.90
Other	0.01	0.23	0.24	0.00	0.00	0.16	0.17	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.82
Depreciation	0.85	0.85	1.89	1.89	1.89	1.89	2.17	3.17	2.65	2.65	2.65	2.65	2.29	2.29	0.93	0.93	0.93	0.93	0.00	0.00	34.48
Sub-total	9.29	9.58	10.69	10.60	11.05	11.30	12.75	13.08	12.63	12.81	13.44	13.43	13.27	13.94	12.57	12.79	13.40	13.50	12.80	13.47	246.20
Existing operating provision (inc depn)	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	177.80
Shortfall (-) to be funded from baseline	(0.40)	(0.69)	(1.80)	(1.71)	(2.17)	(2.41)	(3.86)	(4.18)	(3.74)	(3.92)	(4.55)	(4.54)	(4.37)	(4.95)	(3.68)	(3.90)	(4.51)	(4.61)	(3.91)	(4.58)	(68.39)
Capital ($m)																					
Main contract & subdivisional hard f	0.48	7.84	8.07	0.00	0.00	5.49	5.68	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	27.54
Soft fitout	0.09	1.49	1.54	0.00	0.00	1.05	1.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.25
Total to be funded from cash reserves	0.57	9.33	9.61	0.00	0.00	6.54	6.74	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	32.79
OPTION 2 - 13,625 m²																					
[redacted]																					
Total Occupancy Cost	8.44	8.50	7.23	6.85	6.26	6.89	7.35	7.41	7.44	7.97	8.00	8.04	8.61	8.64	8.68	9.20	9.24	9.36	10.04	10.09	166.25
Other	0.00	2.19	0.51	0.00	0.00	0.00	0.00	0.00	0.00	0.09	0.09	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.88
Depreciation	0.85	0.85	1.47	1.47	1.47	1.47	1.47	1.47	0.67	0.67	1.06	1.06	1.36	1.36	0.68	0.68	0.68	0.68	0.68	0.68	21.36
Sub-total	9.29	11.53	9.41	8.32	8.32	8.35	8.84	8.87	8.11	8.73	9.44	9.39	9.96	10.00	9.36	9.88	10.02	10.05	10.73	10.77	190.47
Existing operating provision (inc depn)	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	8.89	177.80
Shortfall (-) to be funded from baseline	(0.39)	(2.64)	(0.52)	0.58	0.57	0.54	0.05	0.02	0.78	0.17	(0.55)	(0.50)	(1.07)	(1.11)	(0.47)	(1.00)	(1.13)	(1.17)	(1.83)	(1.88)	(11.62)
Capital ($m)																					
Main contract & subdivisional hard f	0.00	4.68	3.42	0.00	0.00	0.00	0.00	0.00	0.00	3.41	3.41	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	14.91
Soft fitout	0.00	2.75	2.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.76
Total to be funded from cash reserves	0.00	7.43	5.43	0.00	0.00	0.00	0.00	0.00	0.00	3.41	3.41	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	19.67
SQ - Depn - (over 12yrs from lease commencement yr)																					
Main contract & subdivisional hard f	0.00	0.00	1.37	1.37	1.37	1.37	2.29	2.29	2.29	2.29	2.29	2.29	2.29	2.29	0.93	0.93	0.93	0.93	0.00	0.00	27.54
Soft fitout (15% of total fit out)	0.00	0.00	0.52	0.52	0.52	0.52	0.67	0.67	0.35	0.35	0.35	0.35	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.25
OPTION 2 - Depn - (over 12yrs from lease commencement yr)																					
Main contract & subdivisional hard f	0.00	0.00	0.67	0.67	0.67	0.67	0.67	0.67	0.67	0.67	1.35	1.35	1.35	1.35	0.68	0.68	0.68	0.68	0.68	0.68	14.91
Soft fitout (various % of total fit out)	0.00	0.00	0.79	0.79	0.79	0.79	0.79	0.79	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.76