

## Commercial and in Confidence

31 October 2012

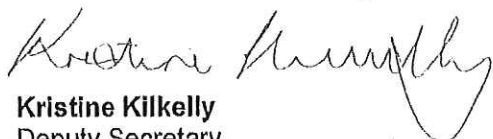
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### Education Report: Wellington Office Accommodation Strategy

#### Recommendations

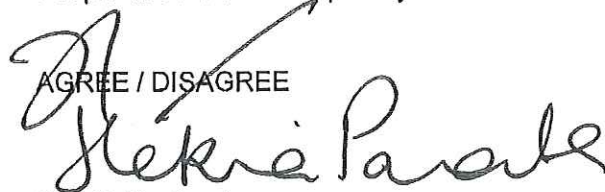
We recommend that you:

1. **Note** the attached business case developed by the Property Management Centre of Expertise (PMCoE) which outlines the National Office accommodation option recommended for the Ministry of Education
2. **Support** the accommodation option recommended by PMCoE for the Ministry of Education in Bowen Street
3. **Note** that Bowen Street is not the Ministry's first choice, and that while the PMCoE business case is likely to achieve savings for agencies overall, the savings are reduced for the Ministry in comparison to the savings that the Ministry would have been able to achieve through its own procurement process. Note that there are some risks associated with the accommodation option identified for the Ministry in the PMCoE Business Case.
4. **Note** that there are some risks associated with the accommodation option identified for the Ministry in the PMCoE Business Case.



**Kristine Kilkelly**  
Deputy Secretary  
People and Business Capability

AGREE / DISAGREE



Hon Hekia Parata  
Minister of Education

7.12.12

Apologies for delay in formal  
sign off - trust discussions  
have made understanding  
and agreement clear.<sup>3</sup>

### **Purpose of report**

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5. The purpose of this report is to brief you on the National Office accommodation project and the accommodation option recommended for the Ministry of Education by the Property Management Centre of Expertise (PMCoE). The PMCoE is a business unit within the Ministry of Social Development (MSD). The Chief Executive of MSD is the Functional Leader for property.
6. The Ministry has been asked by the PMCoE to provide feedback on the executive summary of the draft business case that is going to SEC on 13 November and Cabinet on 19 November 2012.
7. The business case recommends Bowen Street as the future National Office accommodation option for late 2014.

### **Background**

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8. In 2011 the Ministry undertook a Request for Proposal (RFP) process and identified Stout Street as the preferred option and Cabinet approved<sup>1</sup> the authority for the final investment decision to joint Ministers i.e. Minister of Finance and Minister of Education.
9. The PMCoE<sup>2</sup> was established in April 2011 and is tasked with driving efficiency and effectiveness gains in property management across Departments and Crown Agents by providing leadership, guidance and support, but without changing the accountability for decision making from individual agencies.
10. Earlier this year the PMCoE initiated a centrally-led procurement and business case process for the first tranche of five agencies seeking Wellington head office accommodation. This resulted in a preferred solution that includes a recommendation that the Ministry of Education relocate to 33 Bowen Street (Bowen Street) in December 2014. Bowen Street is currently occupied by MBIE (MED) and the Crown has a lease through to 2019.
11. PMCoE has drafted the business case that includes a recommendation for the Ministry to relocate to Bowen Street late in 2014 and seeks feedback from the Ministry.
12. The Ministry has been asked to complete the negotiation of Stout Street on behalf of PMCoE where it is planned to relocate MBIE. This negotiation is expected to be completed by 2 November 2012.

<sup>1</sup> Cab Min (12) 12/3A dated April 2012

<sup>2</sup> Cab Min (11) 14/14 Establishment of Property Management Centre of Expertise, dated 4 April 2011

## **Risks**

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13. The Ministry has identified the following risks relating to the recommended option of Bowen Street.
14. Bowen Street may not be available for occupation by 23 December 2014 when the main lease at St Paul's expires. This would require the Ministry to either:
  - a. negotiate a short term lease extension for the existing lease which may incur higher costs associated with a premium in rent; or
  - b. decant the staff from the St Pauls Building for up to six months (and incur the additional costs that this would impose) if the Landlord does not agree to an extension on the lease.
15. The Bowen Street property has a current earthquake rating of 36% of New Building Standard (NBS). The Crown may not be able to negotiate a seismic upgrade i.e. remain at 36% NBS as the Landlord has no legal obligation to strengthen the building.
16. The future costs (rent and capital) to the Ministry of negotiating a seismic upgrade to 82%NBS of the premises are unknown.

## **Financial implications**

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17. Bowen Street provides significant savings over the status quo, however the level of savings could be up to \$1 million per annum less than was expected under the Ministry's preferred option of Stout Street in the business case approved by Cabinet<sup>3</sup>.
  18. The budgeted costs for Bowen Street are still early estimates.
  19. The Ministry's Corporate Property Manager, is working closely with the PMCoE in the negotiation and due diligence process for Bowen Street to ensure the risks are mitigated and the best possible outcome for the Ministry is negotiated.
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<sup>3</sup> Cab Min (12) 12/3A dated April 2012

