

**13.2 SWDC OFFICE ACCOMMODATION - RECOMMENDED OPTION**

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**File Number:** N/A

The Council is satisfied that, pursuant to s48(1)(a)(i) of the *Local Government Official Information and Meetings Act 1987*, the information to be received, discussed or considered in relation to this agenda item is:

- s7(2)(b)(ii) the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.

**PURPOSE**

To provide *councillors/members* a decision on a recommended approach to resolving the Council's office accommodation issues.

**EXECUTIVE SUMMARY**

- This report summarises work done to date to investigate, assess and resolve issues with the Council's office accommodation, specifically the 19 Kitchener Street, Martinborough site which acts as the Council's head office.
- It provides an overview of the optioneering process, including delivery of a Councillor-led workshop and a multi-criteria analysis, to review proposed options and prioritise them based on agreed criteria.
- It sets out the outcome of this process, including a recommended approach to resolve the Council's office accommodation issues, with a prioritised list of options that cascade through viable solutions should the more preferred option become unviable.
- It provides a high-level timeline of the proposed process and associated costs.

**RECOMMENDATIONS**

That *the Strategy Working Committee*

1. Note the updated report and the continued risk to staff health and safety at the 19 Kitchener Street, Martinborough office site.
2. Note that the optioneering work undertaken with Morrison Low and Councillors has identified three viable options:
  - Option 2 – Basic repair and refurbishment of 19 Kitchener Street
  - Option 3 – Basic repair, refurbishment and extension of 19 Kitchener Street and subsequent exit of the Greytown lease in January 2026

- Option 5b – Developer-led new-build that the Council leases space from (with Option 1 in the interim).
3. Approve that the Council progresses delivery of the options in the below prioritised order as aligned to the Councillor workshop feedback and the multi-criteria analysis:
    - Option 5b – Developer-led new-build that the Council leases space from (with Option 1 in the interim).
    - Option 3 – Basic repair, refurbishment and extension of 19 Kitchener Street and subsequent exit of the Greytown lease in January 2026.
    - Option 2 – Basic repair and refurbishment of 19 Kitchener Street.
  4. Approve that, should an option become unviable or exceed suggested thresholds, (due to cost, time, specification etc.) the option is either discarded (as default), or re-submitted to SWC for consideration should it be judged by officers to still be worth reviewing.
  5. Approve the below thresholds as to option viability, and that should these be exceeded, work on that option is stopped and the next option becomes the 'Preferred Option':
    - Option 5b – Developer-led new-build that the Council leases space from (with Option 1 in the interim).
      - i. The maximum initial lease cost per annum is [REDACTED] (to rise with inflation).
      - ii. The maximum lease term is ten years, with an option to extend by a further ten years.
      - iii. The development is in a viable location for staff and customers.
      - iv. The development provides approximately 750sqm of floor space and 600sqm of car parking space including secure parking for the Council's fleet.
      - v. The building is designed to accommodate existing Council needs.
      - vi. The building can be split up into separate space if required should the Council require a smaller footprint in future.
      - vii. The Council can sub-let the building as required.
    - Option 3 – Basic repair, refurbishment and extension of 19 Kitchener Street and subsequent exit of the Greytown lease in January 2026.
      - i. The Council does not renew the Greytown Lease in January 2026 and is able to accommodate its staff at the extended 19 Kitchener Street and/or other facility that does not incur any lease costs.
  6. Approve for officers to begin negotiations with developers over the potential to design and build a facility to meet the above criteria.
  7. Note the intention to seek external resource to support the negotiation process should it be required.
  8. Approve an unbudgeted spend of up to [REDACTED] to work on developing a Business Case for Option 5b in 2024-25.
  9. Note that the draft budget of [REDACTED] for Optioneering in 2025-26 will be removed from the Long-Term Plan

10. Note that, subject to approval of Recommendation 8, the draft budget of [REDACTED] for Business Case in 2026-27 as set out in the Annual Plan will be removed from the Long-Term Plan.
11. Approve a draft budget of [REDACTED] Operating Expenditure per annum starting in 2026-27 to be included in the Long-Term Plan for future lease costs associated with Option 5b.
12. Approve a draft budget of [REDACTED] Capital Expenditure for 2025-26 to be included in the Long-Term Plan for Option 3/Option 2 and to be used should Option 5b be unviable.
13. Note that, should Option 5b be proven to be viable, the forecast [REDACTED] Capital Expenditure for Option 3 for 2025-26 will be ringfenced to the capital budget for Option 5b.
14. Note that, should Option 5b be deemed unviable following early discussions with developers, the [REDACTED] Operating Expenditure per annum budget will be removed through subsequent annual and long-term planning.
15. Note that, should Option 5b be deemed unviable through early discussions with developers, the [REDACTED] budget will deliver the required Business Case 'Lite' for Option 3 or 2.
16. Approve for the start of works proposed within Option 1 – including the installation of security doors at reception and repair of the roof at 19 Kitchener Street as required as part of Option 5b.
17. Note that the proposed Option 1 works, to support Option 5b, can be delivered within existing budgets.
18. Note that work has started on the men's toilets in 19 Kitchener Street, however mould readings are still high which suggests a wider issue within the structure of the building and further work is now being scheduled.

## BACKGROUND

Reports were submitted to SWC on 4 September 2024 and 2 October 2024 setting out the historic and ongoing issues affecting the Council's main office site – 19 Kitchener Street. The 2 October 2024 report set out interim actions and measures that have been taken to manage ongoing risk, as well as setting out a process to determine options and present a recommended option to Councillors for decision. It also highlighted that, at this time, no alternate Council asset was deemed more suitable than 19 Kitchener Street to house staff.

In summary, issues raised included:

- Mould throughout the building
- Asbestos not having had a required survey and management plan
- Lack of physical separation at reception
- Structural issues included ongoing leaks through electrical conduits
- Poor quality work environment
- Multi-sites impacting service delivery

Due to ongoing mould issues, access to the men's toilets at 19 Kitchener Street remains prohibited. At 2 October 2024 SWC, it was agreed to provide budget to remove the mould in the toilets. Work has now taken place, however the latest reports indicate an elevated mould count remains at this location. Given the significant length of time that this has not been treated, the mould is likely to have spread more widely. A quote has been approved to undertake exploratory work to determine the remaining source(s) of the mould. There is a risk that this has spread more widely through the ceiling space, or other structural areas, given historic leaks and ongoing damp issues.

Both reports noted short-term treatments were no longer sufficient and a long-term solution was required. As such, they set out high-level options for a long-term solution which were presented for feedback and consideration ahead of a formal process. These included:

- Option 1: Do minimum – repair the roof and install physical separation at reception
- Option 2: Resolve 19 Kitchener Street – repair the roof and do a basic refurbishment of the office space to include physical separation at reception
- Option 3: Resolve and extend 19 Kitchener Street – repair the roof, do a basic refurbishment of the office space to include physical separation at reception and extend the building to increase capacity and therefore exit the Greytown Lease in January 2026.
- Option 4a: Build a new facility – Council led and funded
- Option 4b: Lease a new facility – Privately built, Council leases the space

### **OPTIONEERING PROCESS**

At 2 October 2024 SWC, Councillors agreed for the Council to appoint Morrison Low to support the optioneering process, ahead of approving a recommended option.

A workshop, led by Morrison Low, was delivered to Councillors, SLT and other key staff on 16 October 2024. Key feedback included:

- Historic inaction and culture of avoiding investing in Council office space
- Challenge and uncertainty of the future – 'amalgamation might happen'
- Previous improvements have been random or adhoc
- Beyond 'do nothing' given toxic mould and risks to staff
- Need to have more security between staff and the public
- Full work-from-home model does not work for delivery of services – hybrid model can be beneficial
- A new building has potential to deliver wider community benefits

The outcome of this session helped guide the key criteria for the multi-criteria analysis (MCA) and their respective weighting, as shown below:

- Affordable – 22.5% - High level cost of establishing the option including any costs while the solution is developed, opex, funding envelope, debt services and impact on rates.
- Prioritises Health & Safety – 20% - Focused on suitable healthy and safe working conditions for staff.
- Functional – 10% - Ease of access for staff, and physical spaces to facilitate teamwork and collaboration including with local Councillors.
- Community Interface – 12.5% - Residents can readily access assistance with various services and receive customer focused consistent and high standards of service delivery.
- Timeliness – 22.5% - Due to the criticality of the current issues with office accommodation, provides a solution in a timely manner.

- Value for money – 12.5% - Quality and sustainability are considered against cost to meet the requirements for office accommodation

During the process, it was advised that a potential developer was interested in providing a facility for the Council. It must be emphasised this is very early in the process and therefore there are significant unknowns and risks associated with this option. As a result of this, for the multi-criteria analysis process, Option 4b – Developer led, leased building has been updated as Option 5a and 5b, reflecting either a 7% yield lease rate, or a market value lease within the Wairarapa. Option 4a – Council built scheme, is now Option 4.

## DISCUSSION

Following the setting of the above criteria and weighting, a multi-criteria analysis was completed. The multi-criteria analysis report can be found at Appendix 1, with the MCA Scoresheet at Appendix 2. The outcome of the MCA indicated three 'viable' options, these being listed below in recommended order:

1. Option 5b – (Score of 0.65-0.3) – Developer-led new-build that the Council leases space from (with Option 1 in the interim).
2. Option 3 – (Score of 0.33) – Basic repair, refurbishment and extension of 19 Kitchener Street and subsequent exit of the Greytown lease in January 2026
3. Option 2 – (Score of 0.1) – Basic repair and refurbishment of 19 Kitchener Street

In turn, it highlighted two 'unviable' options:

- Option 1 – (Score of -0.98) – Bare minimum (as a stand-alone option)
- Option 4 – (Score of -0.18) – Council built development.

These scores were determined using the MCA weighted scoring as set out above. Furthermore, following Councillor feedback around priorities, affordability has been assessed based on annual rates impact and overall Net Present Value (NPV) of the costs.

An NPV approach was taken to recognise that some options include significant upfront capital, but result in longer term savings, while other options result in additional operating costs. An NPV approach recognises the time value of money, and that a dollar spent today is worth more than a dollar tomorrow. The outcome of this is shown below:

Option	NPV of Costs	Annual Rates Impact	Ratepayer NPV
Option 1	████████	████████	████████
Option 2	████████	████████	████████
Option 3	████████	████████	████████
Option 4	████████	████████	████████
Option 5a - 7% yield on build	████████	████████	████████
Option 5b - @ ██████ rent and occupation cost	████████	████████	████████

## NEXT STEPS

It is recommended that the Council pursues the options in order of their respective MCA scores, noting that Options 2, 3 and 5b have similar NPV Affordability scores (and therefore impact to ratepayers) with significantly different outcomes to the Council. This results in a priority order of option as shown below:

1. Option 5b – (Score of 0.3-0.65) – Developer-led new-build that the Council leases space from (with Option 1 in the interim).
2. Option 3 – (Score of 0.33) – Basic repair, refurbishment and extension of 19 Kitchener Street and subsequent exit of the Greytown lease in January 2026
3. Option 2 – (Score of 0.1) – Basic repair and refurbishment of 19 Kitchener Street

It is recommended that options 1 and 4 are not considered as stand-alone options at this stage.

Due to the significant unknowns and risks associated with Option 5b, and in part Option 3, it is recommended that a cascade approach be undertaken to determine option viability. This approach will allow the Council to pursue a preferred option, but, should it be deemed unviable, to remove that option and move on to the next priority option. This is best exemplified by Option 5 – where the difference between a 7% yield lease (Option 5a) or a market rate lease (Option 5b) significantly alters the overall score and therefore viability of the option. Should a suitable per annum lease amount not be able to be achieved, the Council would instead move on to Option 3, which then has its own parameters for success. Option 2 presents as a viable option, with minimal risk, and is therefore the recommended fallback option should Option 5b and Option 3 become unviable through further work.

The below summarises the proposed parameters of the options:

- Option 5b – Developer-led new-build that the Council leases space from (with Option 1 in the interim).
  - i. The maximum initial gross lease cost per annum is [REDACTED] (to rise with inflation). (To note this will be partly offset by not renewing the Greytown lease in 2029).
  - ii. The maximum lease term is ten years, with an option to extend by a further ten years.
  - iii. The development is in a viable location for staff and customers.
  - iv. The development provides approximately 750sqm of floor space and 600sqm of car parking space including secure parking for the Council's fleet.
  - v. The building is designed to accommodate existing Council needs.
  - vi. The building can be split up into separate space if required should the Council require a smaller footprint in future.
  - vii. The Council can sub-let the building as required.
- Option 3 – Basic repair, refurbishment and extension of 19 Kitchener Street and subsequent exit of the Greytown lease in January 2026.
  - i. The Council does not renew the Greytown Lease in January 2026 and is able to accommodate its staff at the extended 19 Kitchener Street and/or other facility that does not incur any lease costs.

As indicated, it is recommended that should an option exceed its above threshold, that option should be removed and the next preferred option be pursued. Should officers determine that the option should continue to be considered (for example because there is only a minor breach of an

above parameter) that option should be brought back to SWC for review and decision before work continues.

Due to the technical nature of this work, specifically around negotiating terms associated with a lease contract and drawing up an agreed design spec, it is recommended that the Council seek external resource to support this process as required. The nature of this resource will only be determined as the work progresses given the different scenarios associated with which option is eventually delivered.

In terms of specific next steps, it is suggested the below be undertaken:

Scenario 1 – Option 5b is proven to be viable:

- Early conversations with developer regarding Option 5b.
- Enter into high-level scoping agreement with developer.
- Progress Option 5b including development of a Business Case.
- Procure necessary intermediate works to support 19 Kitchener Street in the interim (Option 1)
- Conclusion of Business Case.
- Formal agreement with developer to Council specifications, timeframe and cost.
- Site is developed
- Council moves in

Scenario 2 – Option 5b is proven to be unviable but Option 3 can be delivered:

- Early conversations with developer regarding Option 5b prove it is not viable and therefore a high-level agreement cannot be approved.
- Council moves to Option 3
- Business Case 'Lite' is developed for Option 3.
- Work undertaken to extend 19 Kitchener Street
- Council exits the Greytown Lease in January 2026
- Refurbished 19 Kitchener Street is occupied.

Scenario 3 – Option 5b and Option 3 is proven to be unviable:

- Early conversations with developer regarding Option 5b prove it is not viable and therefore a high-level agreement cannot be approved.
- Council moves to Option 3
- Business Case 'Lite' determines it is not possible to fully locate Council at 19 Kitchener Street and alternatives are not viable.
- Council moves to Option 2
- Business Case 'Lite' developed for Option 2
- Work undertaken to refurbish 19 Kitchener Street
- Refurbished 19 Kitchener Street is occupied.

To deliver this work, Councillors are recommended to approve the below funding:

- [REDACTED] Operating Expenditure for 2024-25 to support development of the required Business Case.
- A draft budget of [REDACTED] Operating Expenditure per annum starting in 2026-27 to be included in the Long-Term Plan for future lease costs associated with Option 5b.
- A draft budget of [REDACTED] Capital Expenditure for 2025-26 to be included in the Long-Term Plan for Option 3 to be used should Option 5b be unviable.

As the above process is worked through to determine option viability, it should be noted that:

- Should Option 5b be proven to be viable, the forecast █████ Capital Expenditure for Option 3 for 2025-26 will be ringfenced to the capital budget for Option 5b.
- Should Option 5b be deemed unviable following early discussions with developers, the █████ Operating Expenditure per annum budget from 2026-27 will be removed.
- Should Option 5b be deemed unviable through early discussions with developers, the █████ budget will deliver the required Business Case 'Lite' for Option 3 or 2.
- The draft budget of █████ for Optioneering in 2025-26 will be removed from the Long-Term Plan
- Subject to approval of Recommendation 8, the draft budget of █████ for Business Case in 2026-27 as set out in the Annual Plan will be removed from the Long-Term Plan.

Furthermore, it should be noted that the required Capital Expenditure to deliver Option 1 in the interim is within existing budgets.

### COMPLIANCE SCHEDULE

Full consideration has been given to the provisions of the Local Government Act 2002 S77 in relation to decision making, in particular:

1. A Local authority must, in the course of the decision-making process,
  - a) Seek to identify all reasonably practicable options for the achievement of the objective of a decision; and
  - b) Assess the options in terms of their advantages and disadvantages; and
  - c) If any of the options identified under paragraph (a) involves a significant decision in relation to land or a body of water, take into account the relationship of Māori and their culture and traditions with their ancestral land, water sites, waahi tapu, valued flora and fauna and other taonga.
2. This section is subject to Section 79 - Compliance with procedures in relation to decisions.

Compliance requirement	Staff assessment
State the level of significance (high or low) of the issue or proposal as determined by the <a href="#">Council's Significance and Engagement Policy</a>	This is a matter of low significance. However, Option 5b is likely to generate greater community interest given the potential relocation of the Council's headquarters. There is expected modest impact on rates for all recommended options, with the most expensive options not being carried forward at this time.
State the relevant Council policies (external or internal), legislation, and/or community outcomes (as stated in the Long Term Plan) that relate to this decision.	This report complies with n/a.
State the possible implications for Māori and how Māori have been provided with an opportunity to contribute to decision	There are no implications for Māori.



making if this decision is significant and relates to land and/or any body of water.	
Chief Financial Officer review	<p>The Chief Financial Officer has reviewed this report.</p> <p>The report has direct immediate and future financial implications. These include:</p> <ul style="list-style-type: none"><li>• [REDACTED] unbudgeted OpEx to support the development of a Business Case in 2024-25.</li><li>• A forecast gross [REDACTED] per annum OpEx cost from 2026-27 for a future lease agreement (net reduction through exit from Greytown), or;</li><li>• A forecast [REDACTED] Capital Expenditure in 2025-26.</li></ul>
State the possible implications for health and safety	<p>The existing office space has significant health and safety issues. These were highlighted at the 4 September and 2 October SWC and are ongoing. Delay in progressing a long-term solution with regards to the Council's office space increases the risk to staff health and safety.</p>

**APPENDICES****Appendix 1** [REDACTED]**Appendix 2** [REDACTED]