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TITLE:	WELLINGTON OFFICE REFIT		

RECOMMENDATIONS

It is recommended that the Board:

- i. **approve** a capital expenditure of \$1,426,950 to construct a hybrid workspace on levels 14 and 15 of NZTE's Wellington office.
- ii. **note** the rental income achieved through sublease of level 12 to Callaghan Innovation and Nuku Aotearoa (Walking Commission) is s9(2)(b)(ii) over the next 40 months; and
- iii. **note** the overall savings achieved would be \$229,050 over the next 40 months, based on the recommended spend on the refit of \$1,426,950.

1 PURPOSE

This paper seeks the Board's approval to carry out an office refit to implement a hybrid workspace on levels 14 and 15 of the Wellington office at a cost of \$1,426,950.

2 BACKGROUND

Recently, the Wellington office has seen lower occupancy rates across our floors. This has largely been brought about by fewer people being employed out of Wellington (meaning we now have 48 more desks than people), and the increased flexibility to work from home. These lower occupancy rates have had an impact on our culture and this has been reflected in recent OurVoice surveys (2021 and 2022). Those surveys told us that our people are missing the "buzz" the office once had, the face-to face connection with their colleagues, and that the current office configuration isn't allowing them to work how we now like to work.

In response, the Lead Team have decided to reduce the number of floors we occupy from three to two; create a hybrid workspace on levels 14 and 15; and sub-lease level 12 to Callaghan Innovation and current Level 15 sub-tenant Herenga ā Nuku Aotearoa (the Walking Access Commission). This reduces the amount of under-utilised/unused space in Wellington, enabling us to create a physical environment on the remaining floors that is more engaging for our team. Both agencies have agreed to sublease level 12 subject to the signing of a co-location agreement. The subleasing of level 12 will return a rental income of s9(2)(b)(ii) over the next 40 months from 1 January 2023. The lease for the Majestic Centre will expire on 30 April 2026 with a further right of renewal of 3 years from that date.

When the NZTE 2022/23 Budget was presented to the Board in June, the Board approved a placeholder budget of \$700,000 to re-design and refit levels 14 and 15 as part of the Leasehold Improvements CAPEX budget FY22/23. Since that budget was approved, further engagement with Lead Team and our people resulted in a change of scope, which when combined with increasing construction costs, has resulted in the refit costs being higher than initially anticipated. This now means that Board approval is required due to the approximate total cost of the recommended option being over the Chief Executive's financial delegation of \$1m.


Unispace Limited, a design and construction provider, was appointed from the All of Government panel of contractors after a successful tender process for the design and build of a hybrid workspace.

3 HYBRID DESIGN OPTIONS


A 'hybrid workspace' is by definition, a workspace that promotes flexibility by giving people a choice as to how and where they like to work. A hybrid office layout is typically characterised by different spaces and settings to allow people to work in the way they need to work, be that individually or collaboratively. Desks are unassigned, storage is rationalised, and spaces are aligned to needs and activities; focus, collaboration, team meeting, conversation, and concentration.

Unispace has proposed four options at varying cost points, as shown in the table below. These options have been through several design and cost iterations.

s9(2)(b)(ii), s9(2)(g)(i)



s9(2)(b)(ii), s9(2)(g)(i)



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s9(2)(b)(ii)

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4 FUNDING / BUDGET

A placeholder budget of \$700,000 was approved as part of the F22/23 Leasehold Improvements CAPEX budget in June. The estimate for the refit was based on a conservative construction rate of \$350/m² and the assumption that a simple re-configuring of desk layout and new furniture would be required.

However, following feedback from the hybrid trial conducted on level 14, and after consulting with our people (represented by a 13-person cross-functional group), the scope was extended to ensure a space that met the needs of our people and how we now like to work was designed. After discussion with our Wellington based Lead Team members, it was agreed that the increased scope was necessary to deliver a space that delivered to our needs. This scope change had an impact on the cost of the project which was further compounded by an escalating construction market (increasing costs of materials and services, and a tight labour market). This was the view from our Cost Manager, s9(2) s9(2)(a) from Rider Levett Bucknell:

"In terms of the overall Wellington construction market, it remains extremely busy at present with limited resources available to complete the backlog of project work currently underway and/or planned over the next 2-3 years. I have been a quantity surveyor in Wellington since 1982 and the current construction activity is probably the strongest since the late 1980's. Building inflation is exceeding all expectations and this year alone prices have increased by 10% or more across the sector. Given the amount of new work coming to the market it is unlikely to settle down in the near future."

After considering our design options and the benefits received, it was agreed that we would receive the most benefit from Options A or A1. Funding either of these options would require CAPEX to be reprioritised from within the CAPEX budget, specifically from the following projects:
s9(2)(b)(ii), s9(2)(g)(i)

This would free up sufficient CAPEX to meet the full costs of the project, when added to the \$700k already budgeted. It's important to note that the deferment of the s9(2)(b)(ii), s9(2)(g)(i) s9(2)(b)(ii), s9(2)(g)(i) would have no critical implications to NZTE's operations, the delivery of projects outside of these two projects nor will it introduce a safety risk to our people or physical premises.

On that basis, we are proposing that Option A is funded from within the existing F22/23 Leasehold Improvements Capex of \$2.1m. Option A will be funded as shown in the table below:

PROPOSAL	REFIT COST	FUNDED BY F22/23 CAPEX
Option A estimated construction costs	1,109,000	
Furniture	250,000	
Contingency	67,950	
TOTAL	1,426,950	
	700,000	Pre-approved by Board, already budgeted
	250,000	s9(2)(b)(ii)
	476,950	
	1,426,950	TOTAL

5 BENEFITS OF HYBRID WORKING

Hybrid working is being embraced by organisations in New Zealand and around the world. Organisations have seen the benefits that come with hybrid working, including an increase in productivity as well as cost savings. s9(2)(g)(i)

Creating a hybrid workspace is an investment in our culture and our people. By offering an alternative way of working, we are recognising that how we work has changed post pandemic, and empowers our people to have control over how and where they work, collaborate and socialise while in the office. It does this by:

- Providing more variety of spaces to support different working needs and acoustic demand;
- Creating a consistent and seamless experience across workpoints;
- Resetting and realigning cultural goals; and
- Creating spaces to enable our people to come together socially.

An additional benefit to creating a hybrid workspace, is the cost savings that are able to be realised. Developing a hybrid workspace would enable NZTE to achieve savings in rental costs by \$1.6m over the next 40 months (from January 2023).

We recognise that implementing a hybrid way of working will also come with challenges for some of our people. To manage this, we will offer opportunities for our people to feed into how we implement the practical aspects of implementing a hybrid workspace, including the design of 'neighbourhoods', social spaces and the allocation of anchor desks. We'll also implement change management practices to help our people prepare for the change that comes with the implementation of hybrid working.

6 NEXT STEPS

We recommend that the Board approve the expenditure of **\$1,426,950** to develop a hybrid workspace on levels 14 and 15 as proposed under Option A.

On approval, the NZTE Property team will instruct Unispace to proceed with the detailed designs and refit of levels 14 and 15 and to complete the refit, subject to contract.

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