

Dargaville Civic Buildings

Meeting: Kaipara District Council (**Public Excluded**)
Date of meeting: 30 May 2019
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Louise Miller, Chief Executive

Reason for confidentiality: S7(2)(i) to enable any local authority holding the information to carry on without prejudice or disadvantage negotiations (including commercial and industrial negotiations).

Purpose/Ngā whāinga

To obtain Council approval for entering into an Agreement to Lease of the proposed Northland Regional Council (NRC) building at 32 Hokianga Road, Dargaville.

Executive summary/Whakarāpopototanga

The existing Council offices at 42 Hokianga Road are almost 60 years old and no longer fit for purpose. They will need to be modernised and the existing defects remediated if the site is going to continue to be used as the Kaipara District Council (KDC) offices. The current library is too small and no longer meeting community expectations, so will need to be relocated to larger premises. Hence there is a need for a longer term solution which will provide improved, more suitable civic buildings to accommodate staff and meet customer and community needs.

NRC has offered a solution that will accommodate staff in Dargaville for the medium term. The proposal would require Council to lease space in NRC's new building and would allow for remediation works to be completed on 42 Hokianga Road to be undertaken before the library is moved.

A number of options have been considered to address the ongoing issues and allow Council to retain a presence at/near the current site. In all cases, Council will need to spend an estimated \$2.4 million on repairing and modernising its existing civic offices.

NRC development will be available by the end of 2020. It will allow Council to provide its Dargaville based staff with improved office facilities for the medium term, and further the partnership with NRC. The Dargaville library could then be relocated to 42 Hokianga Road and to be attached to Council's customer service. This development would create a civic area for all Council activities in Dargaville; library, offices, town hall and NRC. It could also enable the Council to consider a wider strategic placemaking option for this precinct, including the town hall complex.

NRC is seeking acceptance of their revised offer to occupy part of their proposed new build, the plans are Attachment B to this report, so they can undertake detailed design and commence construction. They have provided KDC with an extension of time to reconsider their revised offer, but are unlikely to do so again.

Officers recommend that we progress the NRC lease of 32 Hokianga Road and upgrade of KDC offices at 42 Hokianga Road for a library.

This is because:

- Council is utilising existing KDC premises to get a larger library which will allow the service to enhance delivery to the community with improved programmes and digital services, which is what the community has consistently told Council it wants.
- This scenario involves the least debt/cost. A table in the financial implications section on page 11 provides further details.

- Council gets the opportunity to rehouse staff in the NRC building which means more efficient use of shared spaces with NRC.
- NRC is interested in stimulating Dargaville through the construction of a new building and has committed to the development of a joint communication plan with KDC explaining the benefits of the project.

Recommendation/Ngā tūtohunga

That Kaipara District Council:

- a) Approves Kaipara District Council entering into an Agreement to Lease for up to 975m² of offices in the building Northland Regional Council is proposing to construct at 32 Hokianga Road, Dargaville.
- b) Delegates to the Chief Executive responsibility for negotiating the terms and conditions of the Agreement to Lease for an initial term of 15 years, subject to the lease costs being within the costs budgeted in the LTP.
- c) Notes that Council will need to include expenditure for the upgrade of 42 Hokianga Road, Dargaville and relocation of the library in the next Long Term Plan for consultation with the public.
- d) Makes the decision and the report public when the agreement to lease has been executed.

Context/Horopaki

Timeline:

- 27 August 2018 Council workshop – NRC's offer to build a building to accommodate both councils' staff was discussed.
- 05 September 2018 Council meeting – Council resolved the following:
 - *Agrees in principle to leasing office space from NRC in the event that they proceed with construction of a building in Hokianga Road, Dargaville; and*
 - *Delegates to the Chief Executive responsibility for negotiating a Heads of Agreement with NRC on the possible leasing of office space by KDC in the building that NRC proposes to construct on Hokianga Road; and*
 - *Requests that the Chief Executive prepares a Civic Building Strategy to aid future Council decision making.*
- 09 October 2018 Council briefing – Staff received input from elected members about what any future report was to cover. The issues were discussed with consultants, The Property Group (TPG), and they produced the Civic Building Report.
- February 2019 Council briefing – The Civic Building Report completed by TPG along with a staff report was provided to elected members. The TPG report provides an analysis of Council's long term building needs for both offices and libraries and explores various options potentially available for achieving these.
- 28 March 2019 Council meeting – Council declined to pass the following recommendation:
 - *Approves an Agreement to Lease for approx. 975 sqm. of offices in the building Northland Regional Council are proposing to construct at 32 Hokianga Road.*

While not formally part of the minutes, elected members expressed some concerns which are addressed in the relevant sections of this report.

	Concern or issue raised by Council	Addressed in section
1	NRC 6% too commercial	Financial
2	Ongoing overhead cost of the current council	Financial
3	Where is the business case – requirement for provision of extra data from our external community groups is being requested but our internal papers do not include this.	Library detail
4	What will the cost of fitting out the NRC building be?	Financial
5	More clarity on how we can negotiate the rental going forward? What is the ongoing impact on rates?	Risk Mitigation Financial
6	How do we manage the communications about the new office building to ratepayers?	Risk Mitigation
7	What about parking?	Policy and Planning
8	Why are we doing this – no issues with the current building, it is not causing staff to resign.	Current Situation - Recognition of need for new or upgraded office building.

Current status:

Existing KDC Offices, 42 Hokianga Road, Dargaville

The current Council office was built in the 1960s, a further extension was added in the 1990s to house the Council Chambers and has an alternative access from Station Road.

- The total floor area of approximately 980m² (700m² 1960s and 280m² 1990s extension).
- The building houses approximately 75 staff spanning Council's Finance, IT, Policy, Parks and Reserves, Infrastructure, Administration, Archiving and Service Centre functions.
- There are weathertightness and asbestos issues which will require remediation in the short term. As a result of these issues, water ingress is now visible in portions of the 1999 extension. The building continues to deteriorate every time it rains. Poor lighting in the offices that were formerly the Council Chambers has been raised by staff as a health and safety issue. A recent workforce survey expressed a discomfort with the current facilities, giving it a low rating for its physical work environment.
- The 1960s block has a fragmented layout.
- Although the block is not earthquake-prone it has an assessed NBS rating of 55%.
- The building does not have lifts or disabled access to top floor.
- There is a lack of outdoor seating/communal spaces.
- Lack of available and adequate space for the departments that operate out of the office.
- Staff numbers have grown and staff are now housed in very cramped conditions and the layout limits ability to obtain further space efficiencies to add desk space.

Dargaville Public Library, 71 Normanby Street, Dargaville

The Dargaville Library (built circa 1940 as the Northland Power Board offices) has several physical constraints. It was relocated around 2009/2010 from the building that currently houses the Dargaville community cinema (ANZAC Theatre).

- Dargaville Library has an existing floor area of 266m². The size is limited in comparison to most libraries and is inadequate design. Does not meet LIANZA standards.
- Crowded state of shelves, lack of walking space between shelves, extremely difficult for wheelchair access.
- Access to additional digital hardware, services and training cannot be accommodated.

- Health and safety concerns identified covering specific incidence and the fact that the library is only registered through its building Warrant of Fitness to have 21 people in the library at any one time.
- Although recording high user satisfaction in our quarterly customer surveys, based on additional feedback received, the library is currently not meeting community expectations of a modern library by providing facilities such as reading groups, children's holiday programmes, meeting spaces, seating for using mobile computers etcetera.

Northland Transportation Alliance (NTA) in Whangarei

The Northland Transportation Alliance (NTA) staff are housed at Walton Plaza, Whangarei, in purpose built offices which also house a number of Whangarei District Council (WDC) departments and staff. No change is proposed or anticipated to this current arrangement. The assumption is made that NTA will remain in Whangarei and KDC is committed to make the NTA work.

Future requirements:

Population and growth

In looking at where offices will be situated, staff have looked at data from the Long Term Plan (LTP) 2018/2028 assumptions, Kaipara Environmental Scan 2016 and Infometrics.

The town of Dargaville functions primarily as a service centre for the larger community. It provides retail (including a major supermarket), vehicle servicing and hospital services to about half the district. It is the central hub for an area which stretches to Pouto, Ruawai, Tangiteroria, Kaihu and the Waipoua Forest. As such, it is well placed to offer local government services to a large part of the district. This suggests that a service centre should be retained, even if in the future the majority of staff may be based in another office location. Dargaville's population is estimated to be 5,470 in 2018 (from 4,610 in 2013).

Dargaville's population is slightly younger than that of Mangawhai with 24.4% rather than 30.5% of the population aged over 65 in 2013. Dargaville's population is also more ethnically diverse with 30% being Maori and 68.5% European compared to 9.6% and 90.3% respectively in Mangawhai (percentages as at the 2013 census). Mangawhai residents were seen to be less deprived than those in Dargaville with a score of 7 on the 2013 Index of Deprivation compared to a score of 9 in Dargaville (a value of 10 on the Deprivation Index indicates that the area is in the most deprived 10% of areas in New Zealand).

The above information supports the library needing larger premises to provide space for a larger collection and more space for other facilities and services.

Council workforce and growth

In the last five to six years, the resourcing model at Council has transformed from an outsourced resourcing model, of contractor and consultant, to an internal in-house model and more obligations have been placed on local government. Dargaville office numbers should remain about the same or decrease slightly with those staff who have indicated they would prefer to work in the Mangawhai building.

Hot desks will need to be provided, particularly for regulatory and administration staff who work all over the district.

The 'Flexible Work Locations' survey demonstrated the need for KDC office space to be dynamic, large enough to accommodate fluctuating staff numbers, and able to accommodate hot desking depending on staff movements between offices in any given week.

Modern workplace design has seen a change in the way people work. Modern office design principles focus primarily on delivering a digitally adept, dynamic and intuitive space for staff.

Organisations are now realising that they must create office spaces where people want to work. This is especially crucial for KDC where staff retention was highlighted as a key issue

in its strategy. Staff well-being is strongly correlated with employee productivity and employment satisfaction generally, and the physical environment in which staff work is a driving factor to overall well-being.

Discussion/Ngā kōrerorero

Recognition of need for new or upgraded office building

Issue raised by Elected Members:

- *Why are we doing this? – no issues with the current building, it is not causing staff to resign.*

Staff turnover is high averaging between 18% to 25% over the last year. Council also has an external report stating it will cost approximately \$500,000 to fix the weathertightness and asbestos issues at 42 Hokianga Road, Dargaville. The work includes removing external cladding and replacing it with building components and systems that meet the requirements of the building code(s). In order to allow us to undertake the work we would need to relocate the current staff; the work is not able to be carried out whilst staff are on site. The work will need to be completed in the near future in order to avoid further deterioration and costs.

It is recognised that new or upgraded office buildings are needed to meet both customer and officer requirements in Dargaville. The 1960s building has a fragmented layout, with structural columns and cellular offices. Some of the walls in the building have been removed to create partial open plan areas in places. Although the building is not earthquake prone and has an assessed NBS rating of 55%, this is now below the minimum standard required by many organisations for their staff. Updating and refurbishment will address this issue.

The building does not have lifts or disabled access to the top floor and disabled toilets do not actually accommodate wheelchairs. The difference in the age of the building is evident in the building design. There are three levels with different styles and a dated feel. There is also a lack of outdoor seating/communal spaces.

A significant issue Council faces with the current office accommodation at 42 Hokianga Road is the lack of available and adequate space for the departments that operate out of the office. The extension which was originally intended for use as the Council Chambers is now being used as alternative office space. This situation is undesirable, and the open plan office space constructed in 1999 has been described as having unsuitable acoustics to provide a conducive work environment i.e. the office conducts noise. Staff have also complained about the lighting which experts have said does not meet the standards for offices.

There is currently insufficient meeting space and the Mayor's room is often double booked or discussions with customers about their private business occurs in an open area. The Council's lunch room is also very small so many staff eat at their desks.

Recognition of need for new library in Dargaville

The February 2017, library report to Council identified that in order to tackle digital deprivation, empower and engage communities and encourage economic development within the district, the current library service standard needs to be improved to have the greatest possible impact.

An analysis of the main library in the district highlighted several key issues including the lack of space and inadequate design. Modern and efficient library services which enhance the district's digital environment will provide a beneficial and attractive community space for the community and visitors, which is seen as crucial to the economic development of the district. By empowering the community digitally, residents will develop skills that are essential in a modern workplace. The economic implications of this will be a result of both adults and children in the district becoming more digitally literate.

Dargaville library statistics:

	2012/13	2015/16	2017/18
Dargaville Library door count	78,194	68,825	55,092
Kaipara Library books borrowed	151,129	141,038	127,026
Dargaville Library books borrowed	109,126	105,238	95,252
Library Wi-Fi sessions	14,889	25,393	26,438

The traditional library statistics are reducing because the size of the collection is curtailed by the size of the premises and the elderly find it cramped and difficult to manoeuvre about the library. There are increased Wi Fi and computer users but the library is not providing sufficient workspace. Customers are vocal in their responses to the quarterly Council surveys, 33% in February 2019, with responses such as; it's too small and crowded, upset with Council for moving it to a smaller site, is not accessible to wheelchairs/scooters, too small for meeting rooms or programmes. The library has curtailed school holiday programmes due to crowding, Health and Safety concerns and the impact noise has on the rest of the library.

Experience in New Zealand has shown that once a library of suitable space is available those traditional library customers come back, appreciate what Council is providing and this in turn improves Council's reputation. The library moving into 42 Hokianga Road would utilise an existing Council property and will be cheaper to upgrade than building a new library.

Combined Library/Digital Hub PGF Application

Issue raised by elected members:

- *Where is the business case – requirement for provision of extra data from our external community groups is being requested but our internal papers do not include this.*

Funding for the Provincial Growth Fund (PGF) was sought by KDC via the first round of funding for a Dargaville Digital Community Hub. The application was rejected due to lack of a clear scope, site and potential economic benefits.

A secondary application was planned, and a project team established in late February 2019.

The second application was to focus on the Digital Enablement aspect of the hub to build a stronger case.

KDC's approach for the community hub (and focus of the second application) was to explore:

- 42 Hokianga Road site redevelopment opportunities for a community hub, it's definition and scope of works to make the hub viable and accessible.
- Conceptual partnership proposal such as adult education providers (Senior Net, NorthTech, Literacy Aotearoa and Te Roroa Learning), Citizens Advice Bureau, information/tourism site, Maori Wardens and Big River FM.

Te-Taitokerau Northland Economic Action Plan

It was recently announced that this plan was to receive PGF funding.

Led by Taitokerau Fibre Networks Limited (June McCabe), this plan identifies priority projects that will use digital connectivity via regional digital hubs, to drive community and economic development.

The Regional Digital Hubs will be in three locations in the region with the first hub to open in Kaitaia to be used as a business case for further defined funding. The other two hubs are proposed to be in Dargaville and Kaikohe.

This announcement has put a different complexion on the proposed second application.

Having completed analysis of the key strategic links and discussions with strategic partners, the application project is on hold as without being able to clearly demonstrate 42 Hokianga

Road would be a cultural or tourist destination, or that it will be of strong economic benefit to the community, the second application has little to differentiate it from the original application.

Now that the digital hub PGF application is not proceeding, the priority is to have a larger location for the Dargaville library and be aligned with and support the Northland Digital Enablement Programme. There may be an opportunity for co-location depending on their needs.

Options

In terms of the various options for office accommodation, after consideration of the advantages and disadvantages of all of the possibilities identified by TPG in the Civic Building Report, Council officers recommend:

Option a) Lease new offices from NRC at 32 Hokianga Road, Dargaville, and upgrade the building at 42 Hokianga Road, Dargaville, for the library and customer services to occupy.

It is proposed that KDC leases up to 975m² of NRC first floor offices, for a term of 15 years. NRC have previously offered a capped maximum rental ceiling so that the maximum that it could cost KDC would be \$300,000 annually which is what has been budgeted in the LTP.

The cost would be \$325 for exclusive space or \$217 per m² for shared space based on an arms-length arrangement where NRC takes the risk and ensures any increases in the building costs are borne by them. This is within the \$300,000 p.a. budget in the LTP.

Officers have recently meet with NRC who has advised that there is the possibility of lower costs based on a greater sharing of risk. This is discussed in more detail in the risk/mitigation section of this report. This may mean a further \$1,000 reduction p.a.

A preliminary plan of the proposed building is appended to this report as Attachment A. The proposed building will have a wooden framed construction and incorporate the following features:

- Wood clad exterior reflecting Kaipara's history.
- Solar panels and electric charging stations.
- Separate entrances.
- Shared meeting rooms and cafeteria and potential for shared reception area.

This option allows Council to relocate staff so 42 Hokianga Road can be remediated and upgraded for the library to be accommodated. The annual costs of this option would be \$721,450 inclusive of rent, interest, capital repayments and operating expenses. \$450,000 of this is provided for in the LTP. This would be the same for each option.

Option b) Refurbish and extend the building at 42 Hokianga Road, Dargaville, to accommodate both the staff and library. This option would provide offices that are fit for use in the 21st Century and potentially provide an improved library for the community.

This solution which encompasses an extension of the building to accommodate both the library and the Council offices. The building would have a space of 1,803m².

Council would need to build the new part of the offices first so that staff can be relocated and the remediation and extensions then be completed for the library to relocate. The annual costs of this option would be \$756,650 inclusive of interest, capital repayments and operating expenses.

Option c) Refurbish the building at 42 Hokianga Road, Dargaville, for Council office staff and purchase an existing building in Dargaville for the library.

This option would provide offices that are fit for use in the 21st century and provide an improved library for the community. In May 2017, Council considered a report on a number of possible options available within Dargaville. Two of the options identified are no longer

available as they have since been purchased and/or redeveloped by others. The remaining options are:

- 1 Extend existing library into the adjoining building
- 2 Old Post Office on the corner of Hokianga Road
- 3 Furniture Zone building at the corner of Normanby Street/Hokianga Road.

Alternative offices would need to be found for staff while remediation and alteration was progressed and this could take between one to two years. The annual costs of this option would be \$733,950 inclusive of rent, interest, capital repayments and operating expenses.

Option d) Do nothing.

Officers do not consider that this option is a realistic possibility as the current offices at 42 Hokianga Road already need remediation and Council has an obligation under relevant legislation to provide safe and suitable facilities for its customers and staff. The existing offices are hindering the efficient operation of the Council. Staff turnover has started to increase again, partly as a result of the poor working environment. Council would still face costs with this option as it would need to fund short term improvements which would be potentially wasted expenditure.

Analysis of options

The TPG report provided an analysis of Council's long term building needs and explored a number of options potentially available for achieving these.

The assumption underlying this analysis is that Council will in time proceed with the improvements and additions to offices needed to accommodate staff and new library facilities, albeit that this may be phased over time and in respect of new library facilities will need to be included in the next LTP 2021/2031.

To assist with this assessment Council officers have prepared the following table of advantages and disadvantages for each option.

Option a) Lease new office from NRC at 32 Hokianga Road, Dargaville, and upgrade the KDC building at 42 Hokianga Road, Dargaville, for the library and customer services to occupy.

Criteria	Advantages	Disadvantages
Partnership	Co-location with NRC staff assists relationship building. Shared meeting rooms and shared cafeteria. Potential for shared reception.	
Community Accessibility	42 Hokianga Road available for customer services, library and/or meeting rooms. Improved library parking adjacent to library. Staff can move out of 42 Hokianga Road to NRC making repurposing of 42 Hokianga Road easier to renovate with no additional transfer costs.	Cannot accommodate library in same location at NRC building but will be in same precinct area.
Resilience	Outside of Dargaville flood or potential sea level rise Zone.	Closer to Tsunami Inundation Zone than 42 Hokianga Road.
Financial	Less capital needed than Options B and C as NRC is funding additional space.	Lease would be more costly over the very long term.

Option b) Refurbish and extend the building at 42 Hokianga Road, Dargaville, to accommodate both the staff and library

Criteria	Advantages	Disadvantages
Partnership	Library staff in same building for customers to do business with both parts of Council.	Lost ability to share with NRC.
Community Accessibility	Parking adjacent to library.	
Resilience	Outside of Dargaville flood or potential sea level rise.	
Financial	May be lower cost option over long term 20 plus years.	Capital required not available so would mean higher Council debt over longer period.

Option c) Refurbish building at 42 Hokianga Road, Dargaville, for Council office staff and purchase an existing building in Dargaville for the library.

Criteria	Advantages	Disadvantages
Partnership	All Dargaville Council staff share the same building.	Lost ability to share with NRC. Civic precinct would not include library.
Community Accessibility	Dependant on location of library building, it may have better access than existing library or 42 Hokianga Road.	Repurposing of 42 Hokianga Road more difficult as staff would have to move out of 42 Hokianga Road to alternative accommodation for up to two years.
Resilience		Inside of Dargaville flood or potential sea level rise. Possibly within Tsunami Inundation Zone.
Financial	Less capital required than option B	Uncertainty regarding costs until new library building identified.

Financial implications

Issue raised by elected members:

- *What is the ongoing impact on rates – need to understand this before we commit. What will the cost of fitting out the NRC building be?*
- *Won't there be two fit outs – NRC and the refurbishment of the current office to make it fit for purpose?*
- *Ongoing overhead cost of the current Council building.*

The tables below provide analysis of total capital and annual operating cost for each option.

	Option a) 32 Hokianga Road NRC lease/upgrade 42 Hokianga for library and customer services	Option b) 42 Hokianga Road with library and extension	Option c) 42 Hokianga Road with library relocated to another building
Space	980m ² plus 883m ²	980m ² plus 903m ²	980m ² plus 700m ²
Capital required to upgrade/extend	\$2,400,000	\$6,580,000	\$2,400,000
Fit out	\$400,000 (estimate)	Included in above	\$1,200,000 (estimate)
Temporary premises relocation	NA		\$350,000
Purchase of building			\$600,000 (estimate)
Total capital or one off costs	\$2,900,000	\$6,580,000	\$4,550,000
Less proceeds from sale of Normanby Street library building	\$395,000	\$395,000	\$395,000
Net capital or one off costs	\$2,405,000	\$6,185,000	\$4,155,000
Weathertightness remediation of 42 Hokianga Road (one off)	\$500,000	\$500,000	\$500,000
Operating cost in year one	Option a) 32 Hokianga Road NRC lease/upgrade 42 Hokianga for library and customer services	Option b) 42 Hokianga Road with library and extension	Option c) 42 Hokianga Road with library relocated to another building
Annual interest expense @ 4%	\$96,200	\$247,400	\$166,200
Annual rent	\$300,000 (provided in 2018 LTP)	NA	\$60,000 For two years
Annual debt repayment over 20 years	\$125,250	\$309,250	\$207,750
Annual operating costs	\$200,000	\$200,000	\$300,000
Total annual costs	\$721,450	\$756,650	\$733,950
Annual costs as % rates in 2020/2021	1.84%*	1.93%*	1.88%*

* Approximately 1.2%(\$450,000) is already included in LTP budgets.

Alternative funding option

Should Council not want to fund the capital requirements from its own balance sheet of Options b) or c), an alternative solution could be a sale and lease back of a refurbished and/or extended 42 Hokianga Road.

Recommended option

It is recommended that Council approves **Option a)** Lease new office from NRC at 32 Hokianga Road, Dargaville, and upgrade the building at 42 Hokianga Road, Dargaville, for the library and customer services to occupy.

Rationale for recommendation

The recommendation option is based on:

- i. Lower capital required
- ii. Lower operating costs
- iii. Improved offices and library provided in the shortest timeframe
- iv. Furthering of the partnership between KDC and NRC
- v. The NRC development will allow Council to provide its Dargaville-based staff with improved office facilities for the medium term and then consider its next steps in respect of upgrading 42 Hokianga Road for a library during the development next year of the LTP 2021/31. Council is utilising existing Council premises to get a larger library with improved programmes and digital services as well as improved parking for the library which is what the community has consistently told Council it wants. This scenario involves the least debt/cost. Council gets the opportunity to rehouse staff in the NRC building which means more efficient use of shared spaces with NRC.

Policy and planning implications

NRC will be required to obtain a resource consent and will have to mitigate this non-compliance in some way. NRC assumes KDC will park on the road.

Issue raised by elected members:

- *What about parking?*

In terms of the current parking situation, the majority of staff and all customers currently park on either Hokianga Road or Station Road (angle park). Council's current carpark is modest in size and does not provide sufficient off street car parks to comply with the District Plan rules. It will however provide 18 spaces for the library for Options a) and b) which is an improvement on that now available.

In the medium term there are some possibilities to increase the off street parking available in the vicinity that can be explored e.g. develop car parking behind the RSA, 65 Normanby Street, or lease parking from Chorus in front of the Exchange (Hokianga Road).

Construction of new buildings on each site is likely to be a Permitted Activity if they comply with the relevant performance standards in the current District Plan.

Construction of new Civic buildings is often considered a good opportunity to consider the potential for civic placemaking which could be a part of future planning.

Regardless of Council's decision, NRC will proceed with the construction of an attractive new building at 32 Hokianga Road, albeit that it will be on a smaller scale than proposed if KDC does not proceed with a lease.

Risks and mitigations

Issue raised by elected members:

- *NRC 6% too commercial.*
- *More clarity on how we can negotiate the rental going forward?*
- *How do we manage the communications about the new office building to ratepayers?*

Financial risk to Council is being mitigated by an undertaking from NRC to provide a guaranteed maximum rental for the office space being provided. NRC has assumed all risk in relation to construction cost escalation

This allows for the possibility of the KDC rental costs being lower if the project is delivered below budget. The rental cost to KDC per SQM in this scenario would be based on 6% on the actual costs for the project if under budget.

NRC has reaffirmed they want to be partners and that the makeup of the 6% had been based on 4% interest cost and that 2% that was required to be collected for depreciation in order to fund future major maintenance and renewals. NRC has advised they are considering borrowing the funds from LGFA for the new building and are aware the rate has recently dropped so there could be movement if KDC wants to be true partners and share the risk. They have reaffirmed that they will have an open book for all costs regardless of the option chosen by Council.

There is a risk of cost escalation with each of the other options, particularly in relation to the refurbishment of 42 Hokianga Road and uncertainty in respect of library purchase/fit out costs for Option c).

Property leases are governed by the Property Act 2007. Council mitigates the legal risks by ensuring that any lease it enters into is reviewed and endorsed by its legal advisors.

Any Agreement to Lease will include the key commercial terms covering all aspects of the arrangements such as term, initial rent, any rights of renewal and provision for rent reviews (if any). There are different rent review methods typically utilised. These include market, fixed percentage or CPI adjustments among others. Advice will need to be obtained on which method(s) provide Council with the lowest risk but staff will ensure that the relevant discount is applied.

Standard lease conditions around rent reviews provide dispute provisions such as arbitration in the event that parties cannot agree.

In terms of managing the communication risk in respect of this decision the proposed mitigation is to develop a joint communication strategy/plan with NRC. This strategy would communicate the rational and key benefits that each organisation sees being realised by partnering in this building.

NRC has their rationale for partnering in a building with KDC:

- NRC needs increased staff to do their programme of work in the west of Northland and wants to locate more staff in the area rather than at Whangarei. They have decided on Dargaville and will later look to locate a further office in Mangawhai.
- They want the building to be an economic stimulus for Dargaville and show that NRC is confident in the town to increase their staff at this location and share where they can with KDC, meeting rooms and amenity rooms. They are looking at providing 19 desk spaces for staff to hot desk.
- Both councils support the same ratepayers so sharing spaces is the best use of ratepayers funds.

KDC drivers are:

- Defective building that needs to be remediated for weathertightness issues, asbestos and further earthquake strengthening.
- NRC funding means that the debt will not be on KDC's balance sheet. Council LTP has the objective lower external debt over the next 10 years.
- Freeing up existing building so it can be repurposed into a larger library and customer services facility.

- Both councils support the same ratepayers so sharing spaces is the best use of ratepayers funds.

Significance and engagement/Hirahira me ngā whakapāpā

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy as lease costs are already budgeted for in the LTP and, for all options, the additional expenditure is less than the significance threshold of \$3,000,00 that requires public consultation.

The potential redevelopment at 42 Hokianga Road, Dargaville, for the library will need to be considered during the development of the next LTP 2021/2031. A larger library has been requested by the community in much of the feedback to Council.

Next steps/E whaiake nei

- To finalise an Agreement to Lease with NRC.
- Develop scope/specification for fit out of NRC offices.
- Develop joint KDC/NRC communication plan for informing the community of this decision.
- Develop project plan for relocation of staff.
- Preliminary design for refurbishment of 42 Hokianga Road for combined library/customer services.

Attachments/Ngā tapiritanga

	Title
A	Scheme plan from The Property Group to expand offices and library at 42 Hokianga Road, Dargaville
B	Plans of proposed offices at 32 Hokianga Road, Dargaville - NRC Agreement to Lease

Approved for publication