

9.2 RAY WALSH HOUSE - STAFF RELOCATION

DIRECTORATE: OFFICE OF THE GENERAL MANAGER
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Reference: Item 12.3 to Ordinary Council 26 July 2022 - Minute No 221/22
Item 12.6 to Ordinary Council 9 August 2022 - Minute No 195/22

RECOMMENDATION

That in relation to the report “Ray Walsh House – Staff Relocation”, Council;

- i) receive and note the report;*
- ii) endorse the emergency expenditure incurred to date under Section 55(3); and*
- iii) request further updates on any additional expenditure required to finalise the relocation of staff from Ray Walsh House.*

SUMMARY

The purpose of this report is to update council on the progress being made in relocating staff from Ray Walsh House (RWH), including the estimated capital expenditure (capex) and operational expenditure (opex) for the current financial year 2022/23 and the following two years.

COMMENTARY

Earlier this year the air conditioning systems servicing three of the five floors in Ray Walsh House failed resulting in no heating, cooling or air circulation in those spaces. The air conditioning systems are unable to be repaired or serviced due to the presence of friable asbestos in the form of sprayed Vermiculite fire protection to structural steel floor members.

To allow the replacement of the air conditioning systems, Council intends to remove all asbestos containing materials (ACM) within the entire building, meaning that all staff need to be evacuated from the building and relocated into suitable accommodation.

The appointed, multi skilled project team has been working in consultation with Councillors and Executive staff to identify alternate office solutions that will achieve the overarching goal of relocating staff as soon as practicable whilst having minimal impact on their wellbeing and productivity. The following objectives were identified as priorities:

- staff to remain located in the CBD where at all possible;
- utilise Council’s own office buildings and other premises where possible, without compromising community needs, before exploring commercial spaces; and
- negotiate the best possible value for expenditure on and in identified premises while keeping long term benefits in mind.

To deliver on these objectives, the management team have considered the following options in relation to accommodating staff for the next three (3) years. It is anticipated that the permanent accommodation solution will be resolved at the end of the period.

Four primary options were considered following the issues with the air conditioning in RWH and need to address the presence of the ACM as follows;

Option 1: Continue occupation of RWH Ground Floor and Level 4

For staff who were located in levels 1, 2 and 3, it was not possible to provide a safe work environment and staff needed to be relocated immediately given the heating and cooling issues. Staff working on the Ground and Fourth floors could continue to work in these areas while the air-conditioning system supporting those floors is still operational. However, if this system fails the entire building is unable to be utilised. Also, no work on removing the ACM can be undertaken while any staff remain in the building.

Option 2: Relocate RWH staff to council-owned facilities only

This was clearly our first priority, and while this option may look feasible there were a number of challenges identified as follows:

- some of Council's buildings would require a sizable investment to convert them into suitable office space and then when staff leave the site more money would need to be spent to return the building back to its original status (e.g. TRECC, Town Hall, Community Centre);
- occupation of potentially suitable buildings would mean depriving the community of community service resources (e.g. TRECC, Town Hall, Community Centre);
- negotiations with significant commercial entities for facilities such as the flight training college would have to be abandoned; and
- some buildings are located a significant distance from the CBD (e.g. Flight College – Airport, TRECC).

Option 3: Relocate RWH staff to commercial premises only

This option would have been the quickest and easiest to implement as most suitable premises are in the CBD area and moving staff to them would minimise any disruption to the operations of council-owned buildings. However, this option would have been the most costly and would not deliver value for money over the mid to long term for the following reasons;

- Council will pay an annual rent to house 270+ staff (approx. \$900K given the prevailing market rental rate and space required) whilst some of Council's own office style buildings are under-utilised; and
- The capital cost required to make these premises fit for purpose would be mostly wasted as council has to hand these premises back to their owners after 3 years.

Option 4: Combination of options 2 and 3

Councillors were consulted and agreed to relocate as many staff as possible to suitable Council owned commercial buildings (Lands building, Parry House, 474 Peel Street, Sports Dome and Peel House) before looking into leasing commercial space. This hybrid model ensures that council will achieve all stated objectives:

- help protect the Tamworth economy by keeping as many staff as possible in the CBD;
- keep community buildings available for community use;
- invest in upgrading council-owned commercial buildings to house RWH staff first with the benefit of having these buildings ready for commercial lease as and when staff vacate these buildings in the future; and

- sensibly invest in commercially leased building in a way that has building owners co-investing in making the office space fit for purpose, maximising occupancy by using contemporary fit out options.

To assist and inform the decisions that were needed to implement Option 4, the Executive Team visited two similar sized councils who have recently undertaken projects to either fully renovate or rebuild their administration buildings (Lake Macquarie and Maitland). This gave the Executive Team the opportunity to see firsthand examples of the best applications for furniture and fixtures, how to maximise the utilisation of space, and adopting sustainable design principles. Discussion also focussed on potential pitfalls and learnings in undertaking a project of this scale. Information gained from both Councils has assisted our Executive Team as they worked through the best approach to a more contemporary way of working – using their experience as a benchmark.

The project team have since endeavoured to source office solutions that will serve the council not just in the transitional period but also remain fit for future purpose when the permanent accommodation solution is resolved.

As council proceeds with implementing Option 4 above, there has been regular and ongoing communication with the councillors, staff and the wider community. Formal Council approval has been obtained for two commercial leases that will accommodate around 120 staff and feedback from staff has been incorporated into fit-out design and amenities. The following table provides a summary of how the RWH staff have/will be relocated across the identified premises:

Location	Address	Teams
Parry House (Level 2)	Level 2, 472 Peel Street Tamworth	<ul style="list-style-type: none"> • Water & Waste • Risk & Safety • People & Culture • Finance
Peel House	24 Fitzroy Street Tamworth	<ul style="list-style-type: none"> • Economic Development • Growth & Prosperity
Lands Building	25 Fitzroy Street Tamworth	<ul style="list-style-type: none"> • Events
Northern Daily Leader Building	179 Marius Street Tamworth	<ul style="list-style-type: none"> • Level 2: Regional Services • Level 3: Communications and Strategy & Performance • Level 4: Executive Team (Directors) and Executive Services
Roberts and Morrow Building	127 Marius Street Tamworth	<ul style="list-style-type: none"> • IT • Legal • Internal Audit • Records
Tamworth Sports Dome	7-9 Jack Smyth Drive, Tamworth	<ul style="list-style-type: none"> • Sport & Recreation
474 Peel Street (near Parry House)	474 Peel Street Tamworth	<ul style="list-style-type: none"> • Customer Service • Liveable Communities

The need to identify accommodation for a significant number of staff in order for Council to continue its operations created an emergency situation where decisions and actions needed to occur quickly. The General Manager, in consultation with the

Internal Auditor, utilised the provisions of Section 55(3) of the Local Government Act to avoid the need to undertake a formal tendering process which would have delayed progress for several months. The use of this provision has been disclosed and discussed with the Audit, Risk and Improvement Committee (ARIC) who raised no concerns but suggested that Council undertake an independent probity audit of the process. It is anticipated that this audit will assure Councillors and the community that the decisions made were appropriate, well considered, and subject to an internal due diligence process.

Councillors are acutely aware that the construction environment has had significant increases in pricing over the past 12 months and the ability to source materials, furniture and skilled labour at such short notice has been challenging. However, staff anticipate that when the longer-term project to refurbish RWH commences it may be possible to gain greater efficiencies in costs due to scale and the ability to conduct an open tender process.

Despite having to relocate staff within a very short time frame, the relocation has considered the short and long-term requirements of council, staff and community. The Executive Team and Relocation Project Team have been cognizant of the impact of this unbudgeted cost on the financials of the council which are already stretched under the current inflationary pressures. To ensure value for money, the Relocation Project Team was able to achieve the following:

- High utilisation of Council owned buildings to accommodate approximately 160 staff from RWH. This represents around 60% of total RWH staff to be relocated;
- relocation and reuse of existing furniture where possible taking into consideration maximising utilisation of floor space;
- with the support and expertise of our local contractor, Formline, investment in the fit-out of council's own buildings has been undertaken in a manner that addresses both staff and operational requirements whilst enhancing the value of these buildings to attract future commercial tenants once staff have been permanently relocated in approximately three years' time; and
- **appropriate** commercial buildings were identified through an extensive search process followed by negotiations with owners of shortlisted properties to get better value for money through reduced rental, grace periods before occupancy, owner contribution towards fit-outs and/or outgoings, and utilising any available furniture that was already present in those venues.

Council is reminded that we are fortunate to have professional staff in both our Commercial Property (real estate) and Building Services (trades) areas that have been able to provide advice and assurance regarding costs associated with leasing, capital works, operating expenses, and acquisition of furniture and fittings.

In addition, it should be noted that the development applications for the upgrade works at both Parry House and 474 Peel Street triggered the need to address building compliance issues relating to access, amenities and fire safety which were in addition to the relatively minor works required to actually accommodate the staff. The result is that both buildings will now be fully compliant with current building standards and ready for commercial lease at the end of Council's occupation.

The relocation work that commenced in June is planned to be finalised in October. The expected additional (unbudgeted) cost that will impact this financial year and the following 2 years are expected to be as follows:

	Capex	Opex 2022/23	Opex 2023/24	Opex 2024/25
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	Capex	Opex 2022/23	Opex 2023/24	Opex 2024/25
Commercial Buildings:				
Rent		\$304,478	\$399,393	\$412,736
Building Works ¹	\$443,620			
Furniture	\$538,851			
Council Buildings:				
Building Works ²	\$896,000			
Furniture	\$357,252			
Total Cost	\$2,235,723	\$304,478	\$399,393	\$412,736
Expected to be Funded by:				
Water and Sewer funds	\$500,000			
General Fund	\$1,735,723			
Total Funding	\$2,235,723			

1. Includes all cost, except furniture and white goods that can be removed upon vacating, that make the premises fit for purpose and compliant with applicable regulations: electrical work, A/C, mechanical, fire drenches etc. Note that some of that cost will be co-funded by the owners of the commercially leased buildings. This cost will be depreciated over the lease term (i.e. 3 years).
2. Building works for council owned buildings is capitalised and depreciated according to council accounting policy.

The above table reveals the following:

- 120 staff will occupy the commercially leased premises, costing council approx. \$3,333 average rent per staff per annum.
- out of the approximate \$1m that council is investing in the commercially leased buildings of Old NDL and 127 Marius Street, around 55% relates to furniture and other equipment that will be retained by council at the end of the lease period to be re-used in its permanent office space; and

Council will be able to fund the unbudgeted relocation costs for the 22/23 year from:

- extra investment revenue over above the forecast amount due to increasing interest rates;
- reallocation of operating budgets due to the cessation of services at Ray Walsh House;
- additional rate income for 22/23 including variation granted to council by IPART in June 2022; and
- utilisation of unrestricted cash that is held for emergency unbudgeted expenditure (also known as working funds).

Notwithstanding the above, like many businesses Council is faced with broad inflationary pressures and supply chain issues that are impacting on our ability maintain service levels. Any further unanticipated or unbudgeted cost in 2022/2023 will need to be considered and carefully managed in close consultation with Council, the community, and other levels of government.

(a) Policy Implications

Nil

(b) Financial Implications

As detailed in the body of the report.

(c) Legal Implications

Nil

(d) Community Consultation

Nil

(e) Delivery Program Objective/Strategy

Focus Area 9 – Open collaborative leadership
