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Dear Brian

## **Interim Report on Proposals for a Headquarters Building for Taupo District Council**

On 10 October 2017 Taupo District Council (TDC) confirmed its wish to engage Audit New Zealand to provide assurance services over its Headquarters Building Project (the Project). We had proposed review services on a three part segmental basis covering the early planning, the procurement and the delivery of the Project. At this point our engagement relates to the initial Segment 1 services, namely, a review of the planning and preliminary business case work already undertaken by TDC.

Audit New Zealand is a business unit of the Controller and Auditor-General. Our assurance services have been provided in accordance with Section 17 of the Public Audit Act 2001 and the Auditor-General's Standard AG-5.

### **Background**

During 2016 TDC became increasingly aware of serious issues with its Headquarters Building on Lake Terrace. Consultants were engaged to further investigate and report on two principal issues with the building – its seismic resilience and the presence of asbestos in the building. The Council was concerned about the health and safety of its staff and about its ability to function after an earthquake. In May 2017 it decided to decant staff from its Headquarters Building and relocate them to leased accommodation in several locations in Taupo.

In early 2017 and as part of the annual planning process TDC consulted its community over options for its Headquarters Building. Five options ranging from refurbishment to a new build were costed and considered. TDC's preferred option was for a new building to replace the existing building. After its consultation on the Annual Plan this option was provisionally adopted by the Council. Further planning and investigation of site options was undertaken and in late October the Council confirmed its intention to construct a new building. The Council publicly advised three site options with a preference for a site near the Great Lake Centre.

A final decision is still to be made.

## **Scope and approach**

TDC is seeking an independent review of the Headquarters Building Project to confirm that:

- sound and prudent management processes are being applied to the planning; and
- key expectations for major projects undertaken in the public sector are being met.

In undertaking the review work we have considered:

- Compliance with recognised good practice in the public sector.
- Compliance with the applicable policies and planning for the development.
- Whether the objectives for the Project are likely to be met from the process point of view.

We reviewed documentation relevant to the matters being considered that was provided to us during October and November. We also visited TDC on 26 and 27 October and met with staff who are responsible for the Project.

## **Standards and guidance**

The primary good practice guidance that we have used for our initial services is:

- “Better Business Cases” guidance for projects produced by the Treasury, 2015;
- our internally developed methodologies for review of project management, and governance; and
- we have also developed an extensive knowledge and experience base for project management from our work across the public sector.

## **Limitations**

We have not assessed the accuracy of costings for the building options nor the validity of other technical advice that has been obtained such as for the asbestos issue with the existing building and its implications. We also note that it is TDC’s responsibility to determine which building option it prefers.

## **Our expectations**

To enable us to undertake our work we expect that TDC has:

- provided us with all information that we have requested or that is in the possession of the parties involved in the Project and is relevant to our engagement;
- advised of any circumstances that have arisen during the course of our work that may be material to and significant in relation to our work;

Assurance reviews of this kind can help an entity understand the risks it faces and assist it to manage those risks, but it does not remove the responsibility of the entity itself for ensuring that its actions comply with all relevant legal and other standards.

## **Findings and conclusions**

In undertaking this review we considered whether TDC had met reasonable expectations for a local authority in respect of:

- planning including the business case development;
- project management;
- consultation with the community; and
- decision making.

We record below our findings on these matters:

### ***Planning***

In our review of documentation related to this Project we did not identify a “business plan” as such. However, we did locate substantial information that addressed many of the key elements of a business plan. Documents of particular relevance were:

- A Warren and Mahoney report dated 27 March 2017 which identified issues and risks with the existing building and four options to address those issues including refurbishment of the existing building and the construction of a new building. These options were costed and expected lives identified. However, we are uncertain as to the robustness of the costing and life expectancy information. We comment further on this below.
- A consultation document for the 2017/18 Annual Plan process which was released publicly on 26 April. This document provided a good description of the issues with the existing building, it noted a preference to rebuild on the existing site at Lake Terrace and it described alternative options for refurbishment and a new building or leasing on another site. The costings used in this document were those that were identified in the Warren and Mahoney report.
- Submissions on the Annual Plan closed on 26 May. Community engagement sessions were held as part of the submission process. Council meetings were held on 7 and 15 June to deliberate on the submissions. We reviewed the report to Council and the minutes of the hearing. The Council resolved to not refurbish the existing building and instead confirmed a preference for a new building. The Council directed staff to undertake an expressions of interest process to identify land for purchase or a building to lease.
- A Beca risk assessment report dated 14 June which identified current and residual risk and noted three options including upgrading the existing building, obtaining another existing building and constructing a new building.

- Following our request on 27 October an analysis of the Annual Plan submissions was prepared by TDC. Our interest was in how the options for refurbishment had been progressed and whether they had been set aside prematurely. This issue had also been identified as a risk by TDC and we understand that there has been some case law in relation to another council's process. TDC's analysis showed that through the Annual Plan process there was public support for a new Headquarters Building. However, submissions suggested that it should be constructed on a new site and not on the existing office site. The analysis indicates there was minimal public comment on the refurbishment options which suggests disinterest in those options. Following the Annual Plan hearing process the Council confirmed a preference for a new building.
- As directed by Council an expressions of interest process was undertaken during July and August to identify site, leasing and building options for a Headquarters Building. An assessment of the submissions to this process was undertaken jointly by Beca, Warren and Mahoney and Colliers and they reported to Council on 12 October. The Council considered the report and other information at a workshop on 18 October and on 24 October the Council announced publicly a decision to construct a new Headquarters Building with a preference to locate it on a site near the Great Lake Centre.

In its media release of 24 October the Council included the present Lake Terrace land as a third site preference for the new building. A query was raised with us as to whether retaining the Lake Terrace site as an option is inconsistent with the approach the Council took to its other decisions. The concern was that the Council accepted the weight of submissions in the Annual Plan process to construct a new Headquarters Building but has not necessarily accepted the preference from submissions to vacate the Lake Terrace site. We note that a consultation process is not a vote by the public. Ultimately the Council has the authority to make decisions regardless of whether the community is in support of the decision or not. The Council has an obligation to consider the community views but has no obligation to agree with them. In other words it is the Council's prerogative as to whether it accepts the community view in one instance but not in another. We also note that the Lake Terrace site is a third preference not a first preference.

The Better Business Case guidance produced by Treasury sets out the expectations for Indicative Business Cases. It identifies expectations for the strategic case and the economic case. With respect to the strategic case (investment objectives, benefits and risks) the Warren and Mahoney and Beca reports and the Annual Plan Consultation document are useful in addressing many of these matters. However, benefits are only defined at a high level and usually we would expect to see better definition. With respect to the economic case this is quite well developed in terms of options assessment, costings and a recommended way forward. Again the Warren and Mahoney report and the Annual Plan Consultation document are useful in addressing many of the business case requirements. Although there is no "Indicative Business Case" document as such we do not regard this as a significant issue at this point. However, going forward there is a need for better development of the business case and particularly benefits definition and costings. We provide further comment on this later in our report.

### ***Project management***

It is important to recognise that the Headquarters Building is a major project initiative for the Council. It has all the conventional project attributes of scope, time, cost and quality as well as having a high political and public profile. However, it was not clear from our review that a project management approach has been applied with sufficient rigour. There is evidence of responsibilities having been assigned and internal progress reporting is occurring in terms of “Status Reports”. However, the framework in which the Project is operating isn’t evident. We did not find evidence of a project plan. Although responsibilities of staff for the Project appear to be understood it was not clear to us whether this has been documented. We understand that a Project Manager has been assigned to the Project but only on an interim basis.

We are raising a concern here but acknowledge that this is an early stage of the Project. However, we suggest that the time is rapidly approaching when TDC will need to formalise its approach to the project management. It is essential that a robust approach be taken. This should require the development of a plan that sets out the objectives of the Project and describes the Project structure including governance and management arrangements and individual responsibilities, delegations, risks, reporting and quality assurance arrangements, a timeline, a procurement strategy and cost and scope management. Weaknesses in planning at the early stages of a project are sometimes the cause of more significant issues later.

### ***Consultation with the community***

In our review we identified a number of initiatives taken by TDC to consult with and inform the community:

- TDC recognised that the need to resolve issues with its Headquarters Building was not addressed in the current Long Term Plan (LTP). TDC also recognised that the Headquarters Building issue was a matter of significance in respect of the Council’s significance policy. Appropriately the Council decided to raise this matter through the 2017/2018 Annual Plan process. We agree this approach was necessary.
- TDC also publicly advertised during July and August an expressions of interest (EOI) process to identify land purchase and building options. This EOI process ensured that the Headquarters Building remained in public view.
- Following an extensive internal and external process the Council announced on 24 October its preference for a new building near the Great Lake Centre.

We believe that the Council’s obligations to consult have been progressed quite well through the processes it has followed. However, the 2018 LTP process may be a useful opportunity to complete the consultation process in respect of the 3 options still being considered.

### ***Decision making to date***

There is evidence of a considerable amount of work having been undertaken by TDC leading up to the decisions that have been made. We summarise some of this evidence:

- There is a range of technical and expert reports into the seismic resilience and asbestos issues with the existing building. The first of these reports is dated 2012.
- Risk assessment has been addressed generally and specifically through various reports such as the Beca report and specific advice has been sought in relation to health and safety.
- The Council endorsed steps to relocate staff on an interim basis and at short notice provided the funding necessary to achieve this.
- There has been good development of the long list of options for a Headquarters Building and there has been public consultation on them.
- There was an EOI process to identify site and building lease options.
- There have been formal Council processes such as the 2017/18 Annual Plan process.
- There have been informal processes through a range of Council workshops and reports.
- There have been media releases in respect of office relocation and option preferences.

We are satisfied that the Council decision making process has been robust but with one reservation. We noted above that a decision to set aside the options to refurbish the existing building was made at the Annual Plan hearing in June. We acknowledge that the submissions made to this process generally supported a new building and Council's decision accorded with that. However, we note that the costings provided at the time of the Annual Plan were indicative and possibly not reliable. We have some concern at this point that better costing information may again bring into question the selection of the option.

### **Overall conclusion and recommendations**

TDC has taken a comprehensive approach to investigating the issues with its existing Headquarters Building and identifying options for future long term office accommodation. However, there are several opportunities to strengthen the planning, the business case development, the project management and the decisions made. We recommend as follows:

- 1 That progress be made towards the development of a detailed business case. The information in a draft business case can be used to inform the forthcoming LTP process.
- 2 In developing the business case steps need to be taken to develop better benefits definition for each of the options and better costing information. It may be prudent to retain a comparison with the refurbishment options.
- 3 That steps be taken to formalise the project management approach through the preparation of a Project Plan. Amongst other things this Plan should include clear assignment of management and governance arrangements and responsibilities and the intentions for proposals for quality assurance and reporting.

- 4 That the Council consider using the 2018 LTP process to confirm a final option selection through the development and presentation in the consultation document of a comprehensive narrative and associated information. This narrative could explain the process that has already been undertaken, the risks identified, the alternative solutions and their respective costs and benefits, the reasons why the refurbishment options were set aside, the rationale for the three site options now being consulted on, a high level procurement strategy for the Project and the timetable for the Project.

In making the final recommendation above we acknowledge that subsequent to our review work the Council has advised its wish to include the museum in the planning for a new civic complex. There is insufficient time to include this in the LTP process and therefore a future LTP amendment process will need to be considered to progress consultation on the project.

We are pleased to submit this report which represents a review at a point in time as at the end of November 2017. We are available to clarify any matters arising from this report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Davies', with a stylized flourish at the end.

Peter Davies  
Director, Specialist Audit and Assurance Services