

6 Lease of offices at Miesian Plaza

- 6.1 The Office of Public Works (OPW) is responsible for procuring office accommodation and allocating space for civil service departments and offices. This can involve relocating clients, rationalisation of the accommodation portfolio, and acquiring additional space either by buying, constructing new accommodation or leasing space. OPW aims to provide accommodation which best fits the business needs of its clients at an economic rate.
- 6.2 OPW entered into a 25 year lease on Block 1 Miesian Plaza with effect from December 2016.¹ The lease covers seven floors of office space, a ground floor with meeting rooms and canteen, storage space on the lower ground floor, 76 car parking and 146 bicycles spaces, lockers and shower facilities.
- 6.3 The premises were acquired to accommodate the Department of Health (DoH), the Department of Children and Youth Affairs (DCYA), and to meet other demands such as additional accommodation needs of the Department of Finance (DoF) and the Department of Public Expenditure and Reform (DPER).
- 6.4 Miesian Plaza remained unoccupied at April 2018 even though the lease had been effective from December 2016, and rental costs and service charges of over €15.8 million had been paid. This report reviews the terms of the lease agreed and examines the circumstances that gave rise to the premises remaining unoccupied for an extended period.

Need for premises

- 6.5 DoH for many years occupied Hawkins House, a premises in Dublin city centre owned by the State. It was necessary to re-locate DoH staff to alternative premises as the condition of Hawkins House was deteriorating and the building was considered to be effectively 'end of life'. Planning permission has been granted for the redevelopment of the site including demolition of Hawkins House. OPW initially considered that four floors in the Miesian Plaza complex would be suitable for DoH.
- 6.6 DCYA occupied premises on Mespil Road. The premises were leased by OPW and the lease was due to expire in July 2017. OPW allocated two floors of Miesian Plaza to accommodate DCYA.
- 6.7 The remaining space in Miesian Plaza was intended to accommodate increased staff numbers in DoF and DPER, or possibly to accommodate a smaller Government department. The final allocation of floor area to each occupant is set out in Annex 6A.
- 6.8 Under the *Public Spending Code*,² a business case should be prepared for current expenditure commitments of greater than €20 million involving annual expenditure of more than €5 million. An economic appraisal should form a key part of the business case. In the case of provision of accommodation needs, a cost effectiveness analysis is a suitable economic appraisal technique to identify the least costly way of delivering those needs.

¹ The premises is located at Baggot St. Dublin 2. In this report, references to Miesian Plaza relate to Block 1.

² Issued by the Department of Public Expenditure and Reform, September 2013.

- 6.9** OPW stated that the business case underpinning the decision to lease Miesian Plaza was contained in the submission to the OPW Board and the request for sanction from DPER for approval to enter into the lease. Those documents and other key project documents supplied by OPW were reviewed and assessed against a standard business case model.
- 6.10** It was noted that
- There was no evidence of detailed consideration of other options — Miesian Plaza was identified as ‘virtually the only option’.
 - No cost effectiveness analysis or other economic appraisal was carried out — in particular, there was no consideration of lease, buy or build options.
 - There was no evidence that the full costs of leasing Miesian Plaza were identified and evaluated i.e. fit out costs, furniture, maintenance costs, operating costs, VAT, cost of OPW staff involved in the project.
 - The risks associated with the project were not set out — for example, issues with agreeing client departments’ accommodation needs and the effect on practical completion date.
- 6.11** OPW has stated that alternative accommodation options are always being monitored where a building is to be vacated. Two other premises were considered as alternative locations for DoH and DCYA but not found to be suitable. These were
- The former Central Bank premises on Dame Street — this was rejected as an option because of the complex structural challenges the building could present in the long term and the potential costs of a full refurbishment.
 - A premises on St Stephen's Green — this was not pursued by OPW as it would not have suited a large policy department such as DoH and the sitting tenant was seeking a substantial contribution to recoup its fit out costs. OPW considered the building to be of good quality but that the fit out was of little value to it.
- 6.12** These options were noted in internal correspondence in August 2015 but were not formally documented in the submission to the Board in March 2016.

Lease terms

- 6.13** OPW engaged property consultants to negotiate lease terms with the Miesian Plaza landlord on its behalf.¹ The consultants provided OPW with a report in March 2016. The lease terms negotiated by the consultants are summarised in Figure 6.1. These formed the basis for the lease agreed.

Figure 6.1 Miesian Plaza lease terms negotiated on behalf of OPW

Date of lease:	From completion of works estimated to be quarter 1 2017 ^a		
Premises to be leased:	Entire of Block 1 Miesian Plaza		
Term:	25 years		
Rent reviews:	Compounded yearly in line with CPI and adjusted every five years		
Outgoings:	Tenant pays campus service charge, insurance, services, rates and utilities		
Repairs:	Full repairing		
Rental terms:	Indicative requirements	Quantity	Rate negotiated
	Office space ^b	13,293 m ²	€536.58 per m ²
	Storage space ^b	305 m ²	€268.34 per m ²
	Car spaces	65 spaces	€4,500 per space
	Bicycle spaces	102 spaces	€265 per space

Source: Report on Lease Terms Negotiated for OPW, March 2016

Notes: a OPW documentation and correspondence indicates an expected commencement of works in July 2016.

b The negotiation was based on these indicative measurements of net internal floor area.

- 6.14** The March 2016 consultant's report noted the following in relation to the terms negotiated

- *Timing* — as the premises was needed for the relocation of DoH which was required to align with the redevelopment of Hawkins House, it was important to obtain new accommodation as soon as possible. Miesian Plaza was the only suitable building that could be delivered in the required timescale with other buildings not available until later in 2017. Agreeing a rental rate (in March 2016) would 'lock in' a low rate and thus avoid another year of rental appreciation.
- *Lease term* — most lease terms for buildings with large floor areas are now for 20 years with break options at between 12 and 15 years. For new buildings of this size, it was felt unlikely that the landlord would agree a break option before year 15. As OPW indicated that the building was for a long occupation, the longer lease term was considered something that could be traded for a reduction in the rental rate.
- *Rent reviews* — to ensure that the low rental level negotiated was not negated by significant increases following rent reviews, it was considered important to link rental levels to the consumer price index (CPI).
- *Rent free period and incentives* — as OPW intended to agree a fit out package with the developer separately, it was considered that a rent free period could be traded for a lower rental rate.

¹ The consultants had been engaged to prepare a valuation and advisory report on Hawkins House. Their contract was extended to include the lease negotiation for Miesian Plaza at a cost of €9,225 (including VAT).

Rental terms

- 6.15** The rent negotiated was based on a net internal floor area of 13,293 square metres (m²) of office space and 305 m² of storage. Based on these indicative measurements and the terms negotiated, the annual rent would be €9,267,000 (including VAT).
- 6.16** In March 2016, the OPW Board approved the lease of Miesian Plaza for 25 years on the basis of the terms negotiated by the consultants. The Board approval was subject to DPER sanction. Approval to proceed was requested from DPER with the request noting the terms as presented to the Board. DPER approved the proposal on 16 March 2016 on the basis that OPW considered that the proposal represented value for money, was in line with the overall State property reform agenda, and was consistent with the lease rationalisation programme and the maintenance of annual rent expenditure at sustainable levels. The submission to DPER noted that the rent agreed for office space was €536.58 per m² of **net internal floor area** (€268.34 per m² for storage space). The expectation was that the premises would be ready for occupancy in the first quarter of 2017.
- 6.17** The consultant's report noted that it was mandatory from 2016 for offices to be measured in line with the international property measurement standards (see Figure 6.2). As these standards differ from those which determined the floor areas on which the negotiated rent was based (i.e. net internal floor area), the consultants recommended that OPW obtain measurements in line with the new standards.

Figure 6.2 Property measurement standards

There are a number of standards internationally for measuring property. Measurement using different standards results in different reported areas of the building — it does not mean that there has been any physical change to the building. Differences in measurement standards can arise from where the perimeter measurement is taken, as well as from how areas such as corridors, lifts, stairs and galleries are taken into account.

Research has shown that when comparing five different measurement standards from different property markets, there was a variance of up to 24% in the reported area when measuring the same building.

The International Property Measurement Standards (IPMS) were introduced to bring uniformity to the way property is measured and reported internationally. The first standard, which was for office buildings, was released in late 2014 and became mandatory for all members of the Royal Institution of Chartered Surveyors from January 2016.

There should be no effect on the value or total rent of the property arising from different measurement standards.

Source: International Property Measurement Standards Coalition

- 6.18** A building surveyors' report in December 2016 listed the measurements under both standards — the newly adopted international property measurement standards (IPMS) and the net internal floor area measured in accordance with previous measuring practice in Ireland.¹
- 6.19** The terms of the lease agreed applied the rate per m² which had been negotiated based on the net internal floor area measurement basis, to the larger area measured in accordance with IPMS. Had the rate per m² negotiated been applied to the final net internal area measurements, the annual rent would have been €344,000 less than that agreed in the lease. The measurements provided by the building surveyors and the effect on annual rent of the different measurements are summarised in Figure 6.3.

¹ The appointment of the surveyors was agreed between the landlord and OPW. In May 2018, the landlord sought reimbursement from OPW of half of the costs of the surveyors report (€4,244).

6.20 As there are no break options in the lease, additional rental costs could amount to between €9.5 million and €10.5 million (including VAT)¹ over the 25 year term of the lease arising from the difference between the terms negotiated and those incorporated into the signed lease (see Annex 6B).

6.21 In finalising the lease, the issue of the different measurement bases was considered. When reviewing the lease, the Chief State Solicitor's Office (CSSO) requested OPW to confirm with its in-house valuer whether IPMS was the appropriate standard for measurement in this case. OPW then sought advice from one of its internal chartered surveyors who advised that if measurement under the IPMS code results in a larger reported area, OPW should ensure that the rate per m² is recalibrated.

Figure 6.3 Annual rent — Miesian Plaza

	Rate	Lease terms negotiated		Lease terms agreed	
		Net internal area	Annual rent ^a	IPMS	Annual rent ^a
Office space	€536.58 per m ²	13,817m ²	€7,414,140	14,329 m ²	€7,688,714
Storage space	€268.34 per m ²	648 m ²	€173,831	667 m ²	€178,948
Car	€4,500 each	76 spaces	€342,000	76 spaces	€342,000
Bicycle	€265 each	146 spaces	€38,690	146 spaces	€38,690
Total			€7,968,661		€8,248,352
VAT at 23%			€1,832,792		€1,897,120
Total annual rent			€9,801,453^a		€10,145,472^a

Source: Analysis by OCAG of Report on Lease Terms Negotiated for OPW, March 2016; building surveyors' area referencing report in accordance with RICS professional statement; and signed lease

Note: a Any apparent differences in rent stated are due to rounding of floor areas.

6.22 The reason for not reducing the rent per m² proportionately as a result of including the IPMS measurements in the lease is not clear. OPW has stated that the issue around measurement arose due to the introduction of the new standard. This led to confusion as to the exact area of the building and which measurement system was to be used. OPW has pointed out that this is a highly unusual set of circumstances and that it has engaged with the landlord with a view to rectifying the matter.

6.23 The examination team reviewed a sample of 20 other office premises leases with various start dates. This review identified one further case of what appears to be a similar issue in relation to different measurements. In 2006, OPW entered into a 20 year lease for an office premises in Galway. The papers reviewed indicate that the negotiations were based on the 'net internal area' but that in the signed lease, the terms agreed were applied to the higher 'gross internal area'. Correspondence on file from the CSSO queried the measurement basis. There are internal memorandums from OPW's architects and valuers raising concerns about the change in the measurement basis. In March 2006, an internal memorandum from an OPW valuer noted that the final rent agreed was calculated on the gross internal area basis rather than the net internal area as originally proposed by the landlord resulting in an excess payment of €141,000 per annum over the term of the lease. The memorandum also noted that contrary to what had been originally proposed, there was no rent free period or lease break option in the lease. This issue was brought to OPW's attention as part of this examination. OPW has stated that the matter is being examined.

¹ Assumes the VAT rate remains at 23% and annual CPI increases by between 1% and 2%.

Rental rate

- 6.24** A number of factors make it difficult to compare rental rates between premises. These include different market conditions at the time leases are agreed, different locations and floor areas, and variations in lease terms such as rent free periods and break options. The consultants who negotiated the Miesian Plaza lease on behalf of OPW reported that the rent negotiated was below market rents and was the best that could be achieved.
- 6.25** OPW has stated that it saw Miesian Plaza as an exceptional property at an extremely competitive rent in a rising market.

Rent free period and lease break option

- 6.26** DPER set out the policy for the acquisition and disposal of property in June 2016.¹ The policy includes a requirement that where a lease term of more than 10 years is agreed, a tenant break right at the expiry of the 10th year must be included in the lease. The policy also states that every effort should be made to negotiate a rent free period in every major letting. DPER have noted that it is the responsibility of the relevant accounting officer to ensure compliance with this circular and public financial procedures, and to ensure value for money is achieved.
- 6.27** No rent free period or break option is included in the Miesian Plaza lease. There is no evidence of an appraisal of the reasonableness of the rent agreed considering the absence of a rent free period and lease break option.
- 6.28** OPW has stated that its starting position is always to seek a rent-free period and lease break clause to achieve value for money and to maintain flexibility in the leasehold property portfolio. However, in light of the value being achieved in the overall deal agreed and OPW's long-term commitment to Miesian Plaza, a rent free period and break clause were traded for a lower initial rent. OPW stated that a rent free period forms part of the negotiation but it is not a foregone conclusion and that it focused on achieving the best overall deal and rent given that the lease was for 25 years. While a direct value was not attributed to the rent-free period or lease break, the initial asking rent of €618.92 per m² was negotiated downwards to the final agreement of €536.58 per m². The external consultant was satisfied that this rental level was the best that could be achieved.
- 6.29** The DPER policy was published after OPW's negotiations with the Miesian Plaza landlord were concluded. OPW has pointed out that the policy is intended to provide high level guidance. A requirement to always include a break option is extremely restrictive and would hinder OPW's ability to negotiate the best overall terms. This requirement will be re-examined as part of a review of the overall policy by OPW which has commenced. The outcome of the review is expected to be communicated to DPER by the end of 2018.

¹ Department of Public Expenditure and Reform Circular 17/2016, *Policy for Property Acquisition and for Disposal of Surplus Property*, 28 June 2016.

- 6.30** OPW also stated that due to the level of investment in the fit out and the rental price achieved in a rising market, a break at year 10 was not beneficial. This is a significant relocation for both DoH and DCYA. The existence of a break clause would have only served to create further uncertainty within those Departments in relation to both the commitment of OPW to Miesian Plaza and the permanence of their occupation of the building. If the lease had contained a break clause at the end of year 10 (December 2026) decisions would have been necessary as early as December 2021 in relation to whether or not to avail of the break and planning/identification of an alternative location would have to commence. It is not reasonable or practical to expect two such critical Departments to contemplate such a substantial relocation twice in 10 years.

Repairs and maintenance

- 6.31** In reviewing the proposed lease, the CSSO noted that the lease was a 'full repairing and insuring lease' but that it was intended that some of the repairs and maintenance would be carried out by the landlord on behalf of OPW. The reason stated for this was that due to the nature of the façade of the building and the specialist expertise necessary to maintain it, OPW did not have the resources to carry out the level of repairs and maintenance required to meet the standards envisaged by the landlord. The CSSO advised OPW that such an arrangement was highly unusual and that OPW would still retain responsibility for all repairs and maintenance even though it would be dependant on the landlord to carry out some of the work. The CSSO pointed out that issues could arise if the landlord sold the premises, if the repairs and maintenance were not carried out satisfactorily, or if the landlord went into receivership or liquidation.
- 6.32** The arrangement in relation to the repairs and maintenance to be carried out by the landlord was to be set out in a 'side agreement' rather than in the lease agreement itself. OPW indicated it considered the issue of a side agreement but deemed it unnecessary. The repairs and maintenance to be carried out by the landlord are recorded in the service charges schedule of the lease. OPW has stated that at June 2018, €5,675 has been paid to the landlord for monitoring the maintenance of the 'facade management system'.

Costs to date

- 6.33** Although the lease was signed in May 2017, the rent commencement date was 21 December 2016.¹ Rent and service costs paid to April 2018 amounted to €15.8 million (see Figure 6.4). In accordance with the terms of the lease, the amounts paid in April 2018 include advance payments for May and June. There were service charge balancing payments in June 2018 in respect of the period to April 2018. OPW have stated that the rent and service costs attributable to the period from the commencement of the lease to end April 2018 were €14.1 million.

Figure 6.4 Miesian Plaza — rent and service charges to end April 2018

	2017	2018 (to end April)	Total
	€000	€000	€000
Rent	12,960 ^a	2,536	15,496
Service charges	181 ^b	113	294
Total	13,141	2,649	15,790

Source: Office of Public Works

Notes: a Payments in 2017 include part Q4 2016 and Q1 2018.

b Payments in 2017 include part Q4 2017 plus 1 January 2018.

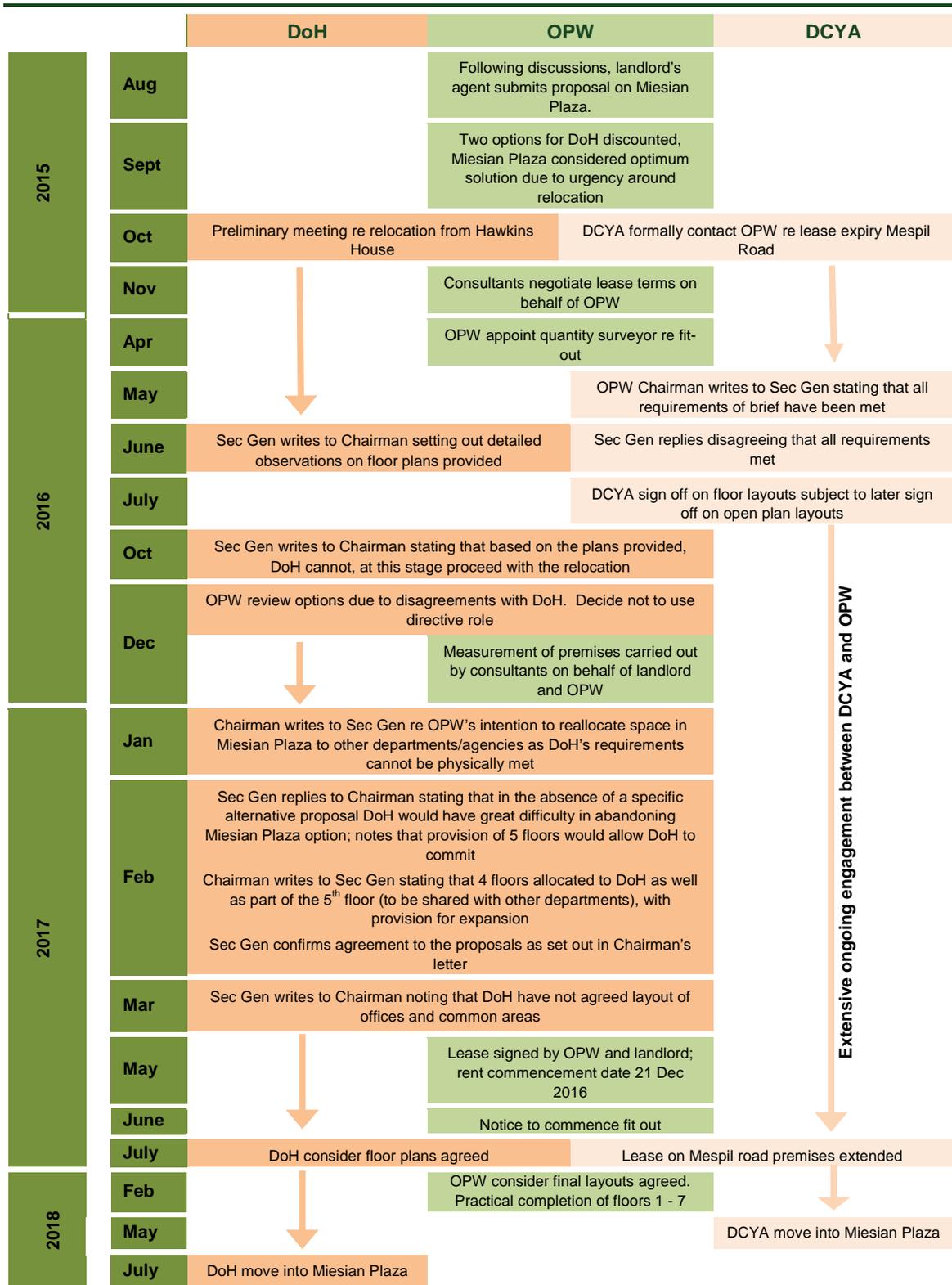
- 6.34** Other costs have arisen as a result of the delay in occupying the premises.
- 6.35** Ongoing maintenance costs arising from the continued occupation of Hawkins House of €331,400 were incurred from July 2017 to May 2018. In addition, DoH has stated that considerable work was necessary to maintain the antiquated telephone system in Hawkins House. The Department's ICT capacity was also severely limited and continuous patching has contributed to slow speeds. DoH has stated that it is difficult to accurately calculate the full additional costs incurred as a result of remaining in Hawkins House until July 2018.
- 6.36** OPW agreed a licence to enable DCYA to continue to occupy premises at Mespil Road beyond the expiry of the lease in July 2017. The building was surrendered in early June 2018. The additional rent and insurance costs incurred by OPW from the date of expiry of the lease were €1.5 million. In addition, maintenance costs of €52,700 have been incurred by OPW in relation to Mespil Road from July 2017 to May 2018.
- 6.37** DCYA also incurred costs arising from its continued occupancy of the Mespil Road premises
- €150,000 was incurred for short-term refurbishment and reconfiguration to meet increased staff numbers.
 - €33,000 was incurred to re-configure telephone lines.
 - €12,900 was incurred for the provision of mobile telephones for staff with no telephone extension due to the capacity constraints on the system.
 - The state of disrepair in the building also led to ongoing expenses (which are difficult to estimate) to maintain basic amenities.

¹ OPW has pointed out that due to the complex nature of lease negotiations, it is normal practice for a lease commencement date to pre-date the signing of the lease.

Agreeing accommodation needs

- 6.38** In December 2012, the Government enhanced the powers of OPW in respect of office accommodation for the civil service and empowered it to
- set and enforce norms for the allocation of space and standards for office fit out
 - direct departments/offices to vacate and/or occupy accommodation in a timely manner
 - in conjunction with DPER, develop and implement formal reporting and accounting arrangements on the utilisation of OPW property.
- 6.39** There was extensive engagement between OPW and the two departments (DoH and DCYA) in relation to agreeing the fit out and configuration of Miesian Plaza. This engagement has included considerable involvement of personnel from OPW and both departments up to and including the highest level in each organisation (the Chairman in the case of OPW, and the Secretary General of each department).
- 6.40** The main issues that led to protracted discussions with the two departments were
- the precise number of staff to be accommodated
 - the number of staff to be accommodated in each 'pod' in open plan areas
 - the layouts and furniture to be provided for assistant principal officers who had been accommodated in individual cellular offices prior to the relocation.
- 6.41** Although OPW has a directive power in relation to civil service office accommodation, it did not exercise that power in this case. OPW stated that in its experience, a consultative/collaborative approach is far more effective when engaging with client departments in relation to office relocations. OPW consider that directive powers are useful in certain situations but are a 'blunt instrument', and in this instance would not have dealt with the complete culture change associated with a move from 'cellular' to open plan layouts. OPW explored all avenues available including considering allocating Miesian Plaza to other clients when it seemed that agreement could not be reached with DoH. OPW consider that a more directive approach would not have assisted in bringing the relocation to a successful conclusion.
- 6.42** Figure 6.5 sets out a timeline summarising the key engagements between OPW and the two departments. It also sets out the key events relating to OPW's lease of the Miesian Plaza premises.
- 6.43** DoF and DPER occupy part of floor 1 in Miesian Plaza. Both departments signed off on their floor plans at the end of March 2017. For these departments, the same workstations were provided for all staff accommodated in open plan areas, regardless of grade. While there was ongoing contact between OPW and these two departments, there was no evidence of extensive engagement in relation to agreeing the fit out and configuration of the premises. DoF and DPER have stated that they were ready from early 2017 to complete the transfer to Miesian Plaza as soon as the accommodation was ready for occupation.

Figure 6.5 Timeline — lease of Miesian Plaza and engagements with DoH and DCYA



Source: Analysis of documentation by Office of the Comptroller and Auditor General

Note:  Indicates extensive ongoing engagement re design and layout, staff numbers, facilities, etc.

Department of Health

- 6.44** In September 2015, OPW indicated to DoH that it was aiming to identify alternative accommodation to replace Hawkins House. A preliminary meeting was held between DoH and OPW in October 2015 whereby DoH confirmed its staff numbers. From this initial meeting until October 2016 there were several changes to those numbers.
- 6.45** From late 2015, there were extensive discussions between DoH and OPW regarding space allocation. The main issues were in relation to the open plan working environment and the allocation of open plan workstations to assistant principal officers, who at that time were accommodated in individual cellular offices in Hawkins House. In addition, there was extensive engagement with DoH in relation to meeting rooms and similar facilities. As a result of the differences, DoH did not sign off on its floor plans in time to reach OPW's practical completion date of March 2017.
- 6.46** Senior officials from OPW and DoH held numerous meetings and exchanged much correspondence in relation to space requirements. In October 2016, one year after the preliminary meeting, the DoH Secretary General wrote to the OPW Chairperson stating that based on the plans and explanations provided, at that stage, the Department could not proceed with the relocation to Miesian Plaza.
- 6.47** The newly appointed OPW Chairman arranged a series of meetings with the Secretaries General of DoH and DCYA for December 2016 to seek to resolve the space requirement concerns. At the end of January 2017, the OPW Chairman wrote to the Secretary General of DoH noting that progress had been made but that an overall solution had not been found. The letter stated that taking account of DoH's requirements and the staffing of both departments, it would not be possible to accommodate both in Miesian Plaza.
- 6.48** In February 2017, the Secretary General of DoH stated that the Department had grave difficulty in abandoning the Miesian Plaza option. OPW confirmed that Miesian Plaza was seen as the long term single location for DoH (and DCYA) and there would be provision to expand the space available to DoH in 2018 and 2019.
- 6.49** OPW stated that indicative layouts were agreed in June 2017. OPW considers that given the scale of the revisions required after that date, final agreement on layouts was in February 2018.
- 6.50** DoH does not accept OPW's view that layouts were finally agreed in February 2018 and considers that it clearly signed off on layouts in July 2017. The views of the Secretary General of DoH on this and other related matters are summarised in Annex 6C.
- 6.51** OPW has pointed out that initial furniture mock ups were provided in late 2016. However, the furniture subsequently requested by DoH was bespoke and therefore had to be designed and made before final mock ups could be provided.

Department of Children and Youth Affairs

- 6.52** The Secretary General of DCYA wrote to the OPW Chairman in October 2015 in relation to the expiry of the Mespil Road lease (in July 2017) and the need to plan for relocation.
- 6.53** There was some agreement in relation to floor layouts for Miesian Plaza in July 2016 but DCYA was not prepared to sign off on the layouts for the open plan at that stage. OPW has stated that DCYA's agreement at that stage included the substantial caveat that whatever was agreed with DoH would also have to be provided to DCYA.
- 6.54** The views of the Secretary General of DCYA are summarised in Annex 6D.
- 6.55** OPW has stated that the requirements for workstations for assistant principal officers for both DoH and DCYA required significant protracted discussions. The issues related to the design of the desks, the stipulation that they could not abut other open plan workstations, the requirement for a meeting table and chair and the extensive storage required in the immediate vicinity of each workstation. Final agreement was reached in February 2018 when both departments accepted the option of eliminating the gap between these workstations and the other open plan workstations.

Design and fit out

- 6.56** OPW's accommodation design standards for government offices (July 2016) are mandatory for the provision of office accommodation in the public service. They set the criteria for refurbishment and alteration of existing buildings and the construction of new buildings. The standards apply to owned and leased buildings where fit out or refurbishment work is to be undertaken.

Use of space

- 6.57** OPW's policy is to allocate workspace in the most efficient way with space allocation based on functions performed in order to deliver an effective service. The accommodation design standards set a space efficiency target of 12 m² of net floor area per workstation. The amount of space per workstation is influenced by the mix of open-plan and cellular office space, and the level of provision of support services. The standards are based on OPW's previous measurement standard which indicates that net floor area is made up of the primary area, amenity area, circulation area, technical area and partition wall area.
- 6.58** The submissions (in March 2016) to the OPW Board and DPER in relation to the proposal to lease Miesian Plaza noted that the target space allocation was 12 m² per person.
- 6.59** OPW has stated that a total of 936 workstations have been provided in Miesian Plaza. This results in a space allocation of 15.3 m² per person — 27.5% more than target. OPW also stated that the achievement of the space allocation target can vary from building to building depending on the design of the building, window distribution, the usage of the building, and the mixture of open plan and cellular offices. OPW has indicated that there is scope to increase capacity further in certain areas as Departmental staff numbers increase into the future.

Available space

- 6.60** When DCYA relocated to Miesian Plaza in May 2018, it was necessary to continue to provide temporary accommodation elsewhere for 18 staff, as the Miesian Plaza layout does not have the capacity for these staff. OPW has stated that DCYA's original brief of requirements has been met in Miesian Plaza and that it is awaiting a request and brief of requirements for further accommodation to meet the needs of new functions allocated to DCYA. OPW stated that the initial brief provided by DCYA in March 2016 was for 285 staff. In June 2016, this was reduced to 268 and the design progressed on that basis. In March 2017, DCYA provided revised projected staff numbers of 276 to end of 2017. A total of 292 workstations have been provided for DCYA in Miesian Plaza.
- 6.61** DCYA have stated that as soon as it became apparent that additional accommodation was required, it brought this to the attention of OPW. DCYA's view is that the department is split across two locations because OPW took a decision not to accommodate its additional requirements in Miesian Plaza (by, for example, utilising the first floor). DCYA also noted that the original brief provided to OPW dates back to 2016, since when it has been allocated additional responsibilities. DCYA is engaging with OPW regarding additional accommodation outside of Miesian Plaza.
- 6.62** DoH has indicated that there is no spare capacity in Miesian Plaza available to the Department at this stage to address future significant priorities including the imminent establishment of the Sláintecare Programme Office and the associated staffing, as agreed by Government. It will be necessary to continue to work with OPW to address such accommodation needs.
- 6.63** OPW has stated that it can only provide accommodation for known staff numbers. While space allocation to each department allows for a degree of normal expansion (10% to 15%), it does not cater for a substantive increase such as might arise from major new departmental work functions.

Fit out of premises

- 6.64** The landlord carried out the fit out of the premises on behalf of OPW. OPW stated that to ensure best value in such cases, a qualified quantity surveyor is used. In the case of Miesian Plaza, an external quantity surveyor was appointed to advise OPW. The landlord's quantity surveyor produced an itemised schedule of all costs which was analysed by OPW's quantity surveyor. Final costs are negotiated and agreed based on this analysis.
- 6.65** OPW indicated that the budget for fit out costs was €20 million and the furniture cost was estimated at €4.5 million. Fit out costs of €16.63 million and furniture costs of €2.86 million (both excluding VAT) have been incurred to July 2018. OPW has allowed some contract variations to the proposed fit out as the works have been progressing, and these are included in the costs to date. However, the full effect of these variations on the estimated cost will not be known until the final account is agreed and some may be offset against savings in other areas. At September 2018, the final account had not been finalised.

- 6.66** OPW bears the cost of the standard fit out for all departments who will be located in Miesian Plaza. The client departments are funding client-specific works and furniture over and above the standard fit out. The full cost of the furniture for DoF and DPER is being met by DoF.¹ OPW have stated that the final costs for client specific works, excluding furniture, are €1.26m — €663,000 allocated to DoH, €396,000 to DCYA and €196,000 to DoF/DPER. While furniture costs have not been finalised, OPW has indicated that costs to date are €3.2 million, some of which is to be recouped by OPW from the departments.

Project review

- 6.67** OPW has stated that it initiated an internal review of the Miesian Plaza lease process in November 2017. The main purpose of the review is to examine the critical aspects of the process to determine if there are learning points that can be applied to similar projects in the future. An external consultant was appointed to work with OPW's governance and evaluation unit on the review. The draft report of the review is under consideration and is expected to be finalised in September 2018.

Conclusions and recommendations

- 6.68** The lease of Miesian Plaza was effective from December 2016. By April 2018, OPW had paid €15.8 million in rent and service costs. Taking account of advance payments as provided for in the lease and service charge balancing payments, the rent and service costs attributable to the period to end April 2018 were €14.1 million.
- 6.69** While it is inevitable that there will be some period during which a newly acquired premises is unoccupied, the absence of a rent free period in the case of the Miesian Plaza lease meant that it was crucial to ensure that the premises were occupied as soon as possible after the commencement of the lease. It was intended that Miesian Plaza would be ready for occupancy from March 2017. This target date was not achieved — DCYA moved to Miesian Plaza in May 2018 with DoH moving in July 2018. The delayed move to Miesian Plaza has resulted in ineffective expenditure on rental and service costs of the order of €11 million relating to the 13 months to end April 2018. Costs were also incurred as a result of the continued occupation of Hawkins House and Mespil Road but it is difficult to estimate the exact costs that are attributable to the delayed move.
- 6.70** The key issues that caused delay in occupying Miesian Plaza were the settling of the number of staff to be accommodated, and delays on reaching agreement on the layout of the accommodation in the open plan areas and on the provision of meeting rooms and other shared facilities. Early agreement on such matters is key to ensuring that significant costs do not arise both in relation to rental of a premises that remains unoccupied and in maintaining premises that are to be vacated.

¹ DoF manages DPER's accommodation requirements and furniture assets for both departments are recorded on DoF's asset register.

Recommendation 6.1

OPW should review its approach to engagement with client departments on the provision of new accommodation to ensure that protracted discussions do not delay the occupation of premises for which the State is incurring costs.

Accounting Officer's response

Agreed.

Full engagement with clients has always been a core part of OPW's work when undertaking projects for departments. OPW is constantly seeking ways of improving its channels of communications with clients to ensure that appropriate accommodation solutions can be identified in the most efficient manner.

In the past 12/24 months, OPW has further enhanced its approach to managing projects through

- the appointment of a senior manager to oversee the property management function
- the appointment of a team of portfolio planners
- the establishment of a new Project Oversight Group
- provision of accredited project management training to key personnel
- provision of accredited property management training to front line property personnel
- the establishment of a project pipeline planning process
- the agreement to appoint change management experts to liaise with clients on major projects
- the hosting of accommodation officer conferences to update clients on property issues
- the establishment of a Governance and Evaluation Unit which supports senior managers in implementing the *Public Spending Code*.

The internal review of the Miesian Plaza project, and the ongoing review of processes and procedures will further update and systemise the improvements that are now emerging.

It is acknowledged that the move towards more modern forms of workspaces — open plan etc. — is a complete culture change for many client departments and can be challenging to implement.

- 6.71** Any significant commitment of public funds should be supported by a business case underpinned by some form of economic appraisal. In the case of office accommodation, a robust business case should not only identify the most cost effective way of meeting the need but also ensure that the option selected is capable of meeting the long-term business needs of the intended occupants. In the case of Miesian Plaza, there was no evidence of detailed consideration of other options, no economic appraisal was carried out and there was no evidence that the full costs and the risks associated with the project were set out and considered in advance.

- 6.72** Miesian Plaza cannot currently accommodate all existing DCYA staff and the expected future additional staff of both DCYA and DoH.

Recommendation 6.2

OPW should ensure that a complete business case in line with the requirements set out in the *Public Spending Code* is prepared in advance for all significant projects.

Accounting Officer's response

Agreed.

The requirements of the *Public Spending Code* with regard to the completion of appropriate business cases for major projects will be followed and will be reflected in OPW procedures currently being revised.

- 6.73** Due to confusion over measurement standards an annual overpayment of €344,000 is being incurred over the term of the lease. Depending on the rate of inflation, this could result in an additional cost of between €9.5 million and €10.5 million over the 25 year term of the lease. OPW has stated that it is undertaking an internal review of the lease process and is examining the options available to it.

Recommendation 6.3

OPW should review its procedures for agreeing lease terms and ensure that robust controls are in place to ensure that the lease terms as agreed are accurately reflected in the formal lease entered into.

Accounting Officer's response

Agreed.

With immediate effect, a process has been established to ensure that the terms agreed during negotiations are accurately reflected in the lease. This process will entail an independent review of the draft lease by a relevantly skilled professional (professional valuer, solicitor, etc.). This procedure will be strengthened as part of the review of OPW Property Management's overall procedures which is currently under way.

- 6.74** External consultants were used by OPW to negotiate the terms of the lease. The consultants advised that a rent free period and a lease break option were terms that could be traded for a lower rent. There was no evidence that the relative economic merits of doing so were formally appraised.

Recommendation 6.4

OPW should ensure that full and formal appraisal of key decisions in relation to lease terms is carried out for all leases whether the negotiations are conducted in-house or by consultants. Formal internal review of all such decisions and appraisals should always be carried out by OPW.

Accounting Officer's response

Agreed.

This is being implemented with immediate effect and will be reflected in OPW revised procedures.

- 6.75** OPW's policy is to allocate workspace in the most efficient way possible. The accommodation design standards for government offices set an overall space allocation target of 12 m² per person. In the case of Miesian Plaza, the average space allocation was more than one and a quarter times the target allocation.
- 6.76** The OPW standards do not contain norms of space or layouts that take account of the nature of the work and business needs of different categories of occupant. The establishment of norms for the allocation of space and the standards of fit out of premises could reduce the need for protracted discussions with intended occupants.

Recommendation 6.5

OPW should establish a set of norms for the allocation of space and the standards for fit out of office premises that take account of the business needs of potential occupants and categories of occupant.

Accounting Officer's response

Not agreed.

OPW has set a general target of 12m² per workstation for office fit outs. Standards of fit outs are in place and all new fit outs must comply with current applicable legislation. The establishment of norms for the allocation of space would not be practicable bearing in mind the variety and complexity in each client's requirements and the varying nature of premises, and would restrict flexibility in dealing with occupants. Each request must be addressed on a case by case basis and, in designing solutions, OPW fully takes on board the specific requirements of each client department. In this context, the overall target of 12 m² per workstation has been set as the goal across the portfolio. The issue with pods and cellular offices is a cultural matter and not one of space allocation.

Annex 6A**Figure 6A.1 Miesian Plaza floor area (m²) by occupant**

Floor	DoH	DCYA	DoF/DPER	Shared facilities	Total
	m²	m²	m²	m²	m²
Ground floor	—	—	—	1,297	1,297
Lower ground floor	—	—	—	667	667
1 st floor	225	—	1,637	—	1,862
2 nd floor	—	1,862	—	—	1,862
3 rd floor	—	1,862	—	—	1,862
4 th floor	1,862	—	—	—	1,862
5 th floor	1,863	—	—	—	1,863
6 th floor	1,862	—	—	—	1,862
7 th floor	1,864	—	—	—	1,864
Total	7,676	3,724	1,637	1,964	15,001

Source: Office of Public Works

Annex 6B Projected annual rent over term of lease

Figure 6B.1 Projection of annual rent over term of Miesian Plaza lease^a

Lease year	Assuming average 2% increase in CPI			Assuming average 1% increase in CPI		
	Rent negotiated ^b	Rent per lease ^b	Additional cost ^b	Rent negotiated ^b	Rent per lease ^b	Additional cost ^b
	€000	€000	€000	€000	€000	€000
Year 1	€9,801	€10,145	€344	€9,801	€10,145	€344
Year 2	€9,801	€10,145	€344	€9,801	€10,145	€344
Year 3	€9,801	€10,145	€344	€9,801	€10,145	€344
Year 4	€9,801	€10,145	€344	€9,801	€10,145	€344
Year 5	€9,801	€10,145	€344	€9,801	€10,145	€344
Year 6	€10,822	€11,201	€380	€10,301	€10,663	€362
Year 7	€10,822	€11,201	€380	€10,301	€10,663	€362
Year 8	€10,822	€11,201	€380	€10,301	€10,663	€362
Year 9	€10,822	€11,201	€380	€10,301	€10,663	€362
Year 10	€10,822	€11,201	€380	€10,301	€10,663	€362
Year 11	€11,948	€12,367	€419	€10,827	€11,207	€380
Year 12	€11,948	€12,367	€419	€10,827	€11,207	€380
Year 13	€11,948	€12,367	€419	€10,827	€11,207	€380
Year 14	€11,948	€12,367	€419	€10,827	€11,207	€380
Year 15	€11,948	€12,367	€419	€10,827	€11,207	€380
Year 16	€13,191	€13,654	€463	€11,379	€11,779	€399
Year 17	€13,191	€13,654	€463	€11,379	€11,779	€399
Year 18	€13,191	€13,654	€463	€11,379	€11,779	€399
Year 19	€13,191	€13,654	€463	€11,379	€11,779	€399
Year 20	€13,191	€13,654	€463	€11,379	€11,779	€399
Year 21	€14,564	€15,076	€511	€11,960	€12,379	€420
Year 22	€14,564	€15,076	€511	€11,960	€12,379	€420
Year 23	€14,564	€15,076	€511	€11,960	€12,379	€420
Year 24	€14,564	€15,076	€511	€11,960	€12,379	€420
Year 25	€14,564	€15,076	€511	€11,960	€12,379	€420
Total	€301,634	€312,221	€10,587	€271,343	€280,867	€9,524

Source: Analysis carried out by the Office of the Comptroller and Auditor General. Any apparent differences are due to rounding.

Notes: a Rent review every 5 years per terms of lease.

b All amounts include VAT and assume VAT remains at 23% for term of lease.

Annex 6C

Views of Secretary General, Department of Health

- 6C.1** As far back as 2005, the limitations of the infrastructure of Hawkins House were apparent and several attempts were made by OPW and the Department to find alternative suitable city centre accommodation but to no avail. The Secretary General was involved in discussions with OPW from the latter part of 2014 in which he stressed the need to have a planned and managed approach to addressing the accommodation needs of the Department. There were a number of incidents in 2015 where masonry and glass fell from the building following high winds and storms. A full inspection of the building confirmed that the building's fabric had suffered extensive degradation over the years. In light of this inspection, OPW advised the Department that Hawkins House could only remain operational for two further winters (2015 and 2016) and the intention was to relocate the Department in early 2017.
- 6C.2** The staff of the Department were informed of the necessity to relocate. While Hawkins House was an ideal location in terms of transportation and commuting, it was made clear to staff that the operation of the Department, and the health and safety of staff and the public took precedence. From that point onwards, the Department's position was that the relocation should be well planned and meet the business needs of the Department but that it should proceed as quickly as possible. The Department set down two important criteria for any new premises — it should be within walking distance of Leinster House and it should be capable of accommodating the entire Department.
- 6C.3** There were different views amongst staff as to Miesian Plaza having regard to the implications for their commuting, childcare arrangements and other factors. However, the Department was clear that Miesian Plaza met its requirement regarding proximity to Leinster House and subject to its configuration, it was eminently suitable.
- 6C.4** OPW explained early in the project that whereas in Hawkins House assistant principals were accommodated in cellular offices, this would not be an effective use of space in Miesian Plaza. OPW advised that assistant principals would be provided with open plan accommodation consistent with their functional requirements. This was fully acceptable to the Department and at no time did it see cellular accommodation for assistant principals as feasible and therefore, did not form part of its requirements. Early in the process, OPW committed to providing 'mock ups' of the layouts and furniture options for staff to be accommodated in open plan but this took some time. Detailed plans for on-floor storage, provided by OPW in late 2016, confirmed the Department's position that additional space was needed. A further issue that took time to resolve was the number of meeting rooms. The Department has over 11,000 visitors each year in addition to internal meetings that take place on a daily basis. The move to a predominantly open plan environment increased the importance of both formal and informal meeting areas.
- 6C.5** The Department put in place a dedicated relocation project and adopted a project management approach. This allowed it to respond rapidly and on an informed basis to layout proposals from OPW and the architects for the landlord. The move has resulted in a 50% reduction in space used. Because of this, the Department has engaged in reducing storage requirements, using managed print services and mobile technologies to reduce space requirements, efficiently managing meeting rooms, reducing office sizes and working with other tenants to share facilities. A key issue was to work through layouts in a level of detail to demonstrate that the Department's business needs would be met. Significant revisions and adjustments were made early in 2017 which better accommodated the Department's needs.

- 6C.6** The summary of the Department's engagement with OPW in Figure 6.5 does not take account of the very significant contact that occurred between March and October 2016. In June and August of 2016, the Department provided detailed observations on the floor plans provided by OPW setting out the requirements to support our business operations. These were important milestones when the Department clearly set out its requirements and sought further engagement with both OPW and the architects. The issues addressed by the Department were also to a greater or lesser extent the same issued encountered by DCYA in that period.
- 6C.7** The Department requested that OPW provide a detailed floor plan (including on-floor storage) for a sample area and it was this that finally led OPW to the conclusion that four floors in Miesian Plaza would not be sufficient for the Department. In January 2017, the external architects confirmed what the Department had been saying for some time i.e. the Department required more space than had been allocated. Further engagement over spring of 2017 culminated in an assurance from OPW that the Department would be accommodated over five floors (four entire floors and one partial), that the space on the fifth floor could be expanded as the Department's needs increased and that Miesian Plaza would be the single location for the Department.
- 6C.8** The chapter notes that OPW considers that the date of final agreement of layouts was February 2018. The Department is clear in its position that floor plans were signed off and agreed in July 2017. No changes whatsoever were requested by the Department to those plans which would have delayed the project and it would have been satisfied to have them delivered as agreed. The changes made in February 2018 were not because of any matter raised by this Department. Any subsequent revisions were made by OPW due to technical reasons and were accommodated by the Department. It is the Department's understanding that the technical issue arose from a miscalculation regarding the positioning of furniture. It is at least possible that had the Department's request for a more detailed spatial design, drawing and mock-ups been accommodated earlier in the project, this issue might not have arisen so late in the process.
- 6C.9** In relation to staff numbers, OPW relied on payroll figures, even though this significantly understates the number to be accommodated as actual numbers always exceed those on the payroll, which excludes support staff provided by external providers, project groups staffed by external experts, staff on secondment from health agencies, and staff on placement as part of training programmes. Plans also needed to be aligned with workforce planning so that projected increases in staff numbers could be accommodated.
- 6C.10** The Department relied solely on OPW to procure accommodation, worked with OPW to utilise the accommodation option put forward and worked within OPW's established norms for civil service office accommodation having regard to the business needs and profile of the Department.
- 6C.11** The Department's move was scheduled by OPW to follow those of DCYA, and DoF and DPER. The Department's July 2018 move dates were first given to the Department at the end of March 2018. The Department has successfully completed its move in line with this timescale. As provider of shared ICT services to DCYA, the Department was also centrally involved in achieving that Department's relocation. Fit-out of the ground floor is continuing.

6C.12 The Miesian Plaza project was both complex and large scale. It is a sophisticated building and involved numerous design iterations and extensive engagement with OPW, other Departments, staff, facility experts, technology providers and others. The objective was to achieve modern accommodation that would continue to meet the needs of the Department for many years to come and this required very detailed and technical engagement between OPW and tenant departments. From the perspective of this Department, it is important to acknowledge that the outcome of this detailed engagement is very positive in terms of the standard of accommodation achieved and the associated benefits that it is clear will be conferred on the important work of the Department for many years to come. The positive response from staff and visitors following the relocation highlights the value of the detailed work undertaken. Whereas the deterioration of Hawkins House posed significant challenges for the ongoing operation of the Department, we are now assured of a modern environment in which to deliver our responsibilities for very many years to come.

Annex 6D

Views of Secretary General, Department of Children and Youth Affairs

- 6D.1** The Department had planned to be in Miesian Plaza significantly earlier due to the severe accommodation challenges in Mespil Road, not least of which was the uncertainty of the lease extension negotiations between the landlord and OPW. In July 2016, the project plan indicated a target move date of March 2017 and accordingly, the Department planned for this. The planned move date did not materialise because the building was not ready for occupancy.
- 6D.2** The key issues for the Department were the layout and furniture solution for assistant principal officers. The Department was anxious to minimise the number of large 'pods' in order to ensure the most positive working environment. It specifically did not want any eight person 'pods' and sought to minimise the number of six person 'pods'. From the very outset both departments and OPW agreed that whatever solution was agreed for the assistant principal accommodation would be applied across both departments. The move of assistant principals to an open plan environment was a significant cultural change. The layout for assistant principals took some time to materialise but the principle was agreed by the Department very early in the engagement with OPW.
- 6D.3** The Department's preference was always to be located on two dedicated floors, and it made clear from the outset the need for a consolidated integrated office solution to our accommodation requirements. In particular, the Department fundamentally opposed being spread out over three floors in Miesian Plaza with resulting sharing of open plan floor space with two other Departments. Given the fact that the move was being planned around a fully unoccupied building over seven floors, I did not consider this request as unreasonable. When initial floor plans were received in mid 2016, they showed the Department split over three floors on a shared basis with two other departments rather than two floors as initially discussed. Discussions continued on this and requests were made for sight of 'mock ups' of the proposed layout of accommodation for assistant principals. Plans showing the Department accommodated on two floors were agreed in February 2017. The absence of the 'mock ups' requested presented further challenges and these were finally presented in September 2017.
- 6D.4** It was entirely reasonable for this Department to insist on seeing open plan layouts in advance of final agreement. The main issue from this process was the failure of OPW to provide a demonstration of the furniture solution for assistant principal officers. The Department was striving to maintain industrial relations harmony in the context of more than 50 assistant principals moving from individual cellular office accommodation. In early 2016, the Department's Management Board conveyed acceptance of new accommodation norms expressed by OPW but stressed the need to demonstrate to an important managerial cohort that their justifiable concerns and views were being taken on board and addressed. This was essential to ensure the continued delivery of a high quality service to the Department's client group.

- 6D.5** In the circumstances, it can be clearly seen that this Department was dependant on finalising the proposed furniture solution and its impact on floor layouts. The final agreement on layouts in February 2018 could only be arrived at following realisation in December 2017 that the furniture layouts proposed deviated from the indicative floor plans provided by OPW i.e. agreed furniture for assistant principals would not “fit” in many instances due to support columns not being factored into the OPW layout.
- 6D.6** OPW challenged the Department’s staff numbers on a number of occasions. Each time, the Department provided both actual and planned numbers. As time progressed and the responsibilities of the Department grew, the numbers to be accommodated increased (an extra 66 in 2017 and 38 in 2018). These increases resulted in the layouts being adjusted. Due to this, OPW informed the Department in December 2017 that the agreed arrangement could not be provided to all assistant principals. The Department asked that the plans be re-examined and re-configured plans for accommodating assistant principals were agreed in February 2018.
- 6D.7** The Department has been accommodated in Miesian Plaza since 21 May 2018. There are some 18 staff temporarily accommodated elsewhere as Miesian Plaza does not have the capacity for these staff.
- 6D.8** The Department worked hard with OPW to address the many complexities involved in bringing this large scale project to successful completion. Detailed engagement and careful planning have resulted in a very successful outcome in terms of a building that is functioning well, and is a good working environment that is conducive to quality work in the years ahead.