

Chapter 21

Office of Public Works

Decentralisation

Decentralisation

21.1 Almost 11,000 civil and public servants were to decentralise from Dublin to 95 locations across the country. By April 2010, following a decision by the government to defer some of the moves the status of the programme was as set out in Figure 107.

Figure 107 Status of the Programme – April 2010

Staff	Decentralisation proceeding	Decentralisation deferred	Total
Number of locations^a	34	61	95
Posts moved	2,430	718	3,148
Posts to move	1,191	-	1,191
Move of posts deferred	-	6,583	6,583
Total planned staff moves	3,621	7,301	10,922

Note:

- a The original decision provided for the movement of 75 organisations or divisions to 53 locations. Some phases of projects have taken place with the second phase deferred. As a result, the number of projects involved is 95.

21.2 The decision to defer a significant portion of the decentralisation programme pending a review in 2011 took account of progress in transferring staff, commitments already made, the costs involved and the business readiness of organisations to move and in the case of State agencies, an Implementation Group report to the Minister for Finance¹⁶¹.

21.3 By April 2010, 3,148 staff were in place in decentralised locations

- 2,430 of these are in locations where arrangements in relation to permanent accommodation had been progressed. There is provision for a further 1,191 staff to move to these locations to bring staff numbers up to the full complement, once permanent accommodation is in place.
- 718 staff have moved to locations where advance offices had been established but the full decentralisation programme has now been deferred. It was planned to move a further 260 staff to these locations.

21.4 Overall the decentralisation of 6,583 posts has been deferred. About 5,000 of these posts are in respect of locations where the decentralisation move has been fully deferred and the balance relate to locations where the number of staff currently approved to move is limited to those already in place.

¹⁶¹ This report on the State Agencies due to relocate under the Public Service decentralisation programme completed in July 2008 and published in October 2008 examined progress to date, identified factors impacting on progress and assessed the scope for advancing the planned moves on an agency basis.

Chapter Focus

This chapter examines property management associated with the decentralisation programme. The programme was substantially curtailed from October 2008. The audit sought to review

- the implications for OPW's property management in the now prevailing market conditions and
- taking account of the conditions prevailing at the time property transactions were effected to review the value achieved in the acquisition of property for the programme.

In doing so the audit relied on both internal OPW benchmarking and an independent review by property consultants engaged by my Office.

21.5 Figure 108 sets out the outlays on property, the stage of completion of the transfers and the number of locations involved.

Figure 108 Staff Moves and Planned Property Costs, April 2010

	Property Transactions finalised	Approval to proceed granted	Advance party in place but full move deferred	No advance party in place - move deferred	Total
Number of locations	27	7	17	44	95
	€m	€m	€m	€m	€m
Capital Costs					
Site purchases	12.9	14.6	19.8	24.0	71.3
Building Cost ^a	133.9	56.6	-	-	190.5
Fit-out costs of leased buildings ^b	20.5	0.1	7.0	-	27.6
Total	167.3	71.3	26.8	24.0	289.4
Recurrent Costs					
Annual temporary lease costs ^c	0.7	0.5	2.0	-	3.2
Annual long-term lease costs	3.8	-	-	-	3.8
Total	4.5	0.5	2.0		7.0

Source: Property Costs: Office of Public Works, Staff position: Department of Finance.

Notes:

- a This includes 12 buildings constructed (€180 million) and one building purchased at a cost of €10 million.
- b €26.5 million was expended by OPW with the balance expended by two authorities who procured their own accommodation.
- c Three leases accounting for annual lease payments of €452,824 were procured by decentralising organisations, the balance were procured by OPW.

Impact of Curtailment

21.6 The decision to defer implementing the balance of the programme pending a review in 2011 has a number of financial implications.

21.7 12 sites valued at €43.8 million were purchased in locations where the decentralisation programme is not being progressed.

21.8 Occupancy levels in buildings constructed or leased in order to accommodate staff in individual locations are less than originally planned.

- Occupancy levels in five of the buildings leased in relation to decentralisation are less than 75% of that originally planned. The combined annual lease cost of these buildings is €801,296. The five buildings were scheduled to accommodate 320 staff and currently accommodate 190 staff.
- Two recently constructed buildings, where staff transfer is still under way, are also under-occupied. A building constructed for the Department of Environment in Wexford, costing €19 million, was designed to accommodate 270 staff and has a current occupancy of 175. A building constructed for the OPW in Trim, costing €32 million which was designed to accommodate 334 staff and currently accommodates 232 staff.

Property Portfolio Restructuring

21.9 One objective of the decentralisation programme was that over time, the costs of property procured for the purpose of decentralisation would be met by the disposal of excess property in Dublin and elsewhere. This section examines

- OPW's property disposals between 2004 and 2009 and the extent to which disposals have been attributed to the vacation of space in Dublin as a result of the decentralisation programme
- the effect of the changing property market on OPW's rationalisation efforts.

Property Disposals

21.10 OPW stated that property savings through portfolio rationalisation effected by OPW as a result of the decentralisation programme are being achieved through disposal of both leasehold and freehold property.

21.11 Between 2004 and 2009, OPW disposed of freehold property which yielded €374 million in total. The bulk of this was received before 2007. Almost all of those disposals were in Dublin. Leases surrendered in Dublin resulted in annual lease savings of €10 million. The annual receipts in relation to property disposals in Dublin as a result of the decentralisation programme are set out in Figure 109.

Figure 109 Dublin Property Disposals since 2004

Year	Dublin Property Disposals	Annual Value of Leases Surrendered
	€m	€m
2004	83.6	
2005	54.3	1.4
2006	217.2	0.6
2007	0.8	0.5
2008	0.1	2.6
2009	—	1.9
2010 ^a	—	3.0
Total	356.0	10.0

Source: OPW

Note:

- a OPW initiated a further Dublin property rationalisation strategy for the core Dublin office portfolio in 2009 and it hopes to surrender leases with annual lease payments of between €6 million and €8 million in 2010.

21.12 In regard to progress in rationalisation, OPW stated that it had been envisaged that its Dublin office portfolio requirement could be substantially reduced, on the assumption that all decentralising posts would come from Dublin. It was a further policy objective that rationalisation in Dublin would be achieved by consolidating the functions remaining in Dublin into a reduced number of offices, and that as a priority the leasehold portfolio would be targeted for disposal by way of surrender in order to leave Dublin-based staff accommodated, as far as possible, in the best quality State-owned and long-term leasehold accommodation.

21.13 In practice the experience to date has been that space freed up is spread throughout the office portfolio in small pockets of space in various buildings. Given the changing staff numbers and the uncertainty likely to prevail until 2011 in relation to deferred decentralisation, the OPW is finding it difficult to frame definitive decisions in relation to the whole Dublin office portfolio.

21.14 OPW stated that, in these circumstances, it is approaching the restructuring of its property portfolio on a case-by-case basis, dealing with individual properties and their occupancy as opportunities arise. While it has adopted a broad strategy of rationalisation for the next four years, many rationalisation or consolidation decisions cannot be confirmed until it has certainty in relation to future staff numbers and consequent space requirements in each Department/Office in Dublin after 2011. Accordingly, it is likely to take a number of years to generate potential rental savings as opportunities arise to surrender expiring leases.

21.15 OPW has stated that a stronger more directive role on its part would enhance rationalisation outcomes by compelling Departments and Offices to co-operate fully with the OPW property strategy, in terms of downsizing or sharing State-provided accommodation or relocation to more efficient buildings.

Impact of Property Market Conditions on Rationalisation

21.16 During the initial years of the decentralisation programme (2004-2007) OPW found that the market was receptive to early surrenders of some city centre properties, mainly for re-development. Likewise, OPW initiatives to dispose of high value State-owned properties were successful at that time.

21.17 However, the property market has altered and the early surrenders, that might have been attractive to landlords who had funds for redevelopment of key properties, are not now on offer to OPW, at a time when some Dublin offices are being vacated by civil service staff. In these circumstances, OPW has no option but to await lease expiries or break options and avail of opportunities for rationalisation as they occur.

21.18 While surrenders of leased premises are planned over the next five years as leases reach expiry or when lease break options occur the environment in which it is trying to rationalise its portfolio has altered significantly. In cases where surrenders are now being contemplated by OPW, some landlords are reacting by using whatever impediments are available to them, under their lease terms and conditions, in an attempt to dissuade OPW from effecting surrenders including making substantial dilapidations claims and strict interpretation of 'time is of the essence' clauses.

21.19 In regard to its overall approach, OPW noted that while the Government had decided to postpone a number of moves pending a review in 2011, it has to position itself to give effect to decentralisation moves should the Government decide to proceed with elements of the programme.

Property Acquisition Costs

21.20 Property for the programme was acquired under a range of measures

- the acquisition of sites for office development
- the construction of office premises on those sites
- leasing of property under both short-term and long-term arrangements.

Site Acquisition

21.21 Where a trawl of State-owned property did not identify suitable sites, potential sites were located by a number of mechanisms

- through proposals submitted by interested parties as a result of a December 2003 advertisement
- through consultation with local authorities
- where no suitable proposals were submitted, OPW approached local estate agents to identify suitable available property in the area.

21.22 OPW stated that the initial site selection process involved an examination of approximately 1,000 sites by its architects. A shortlist of approximately 250 potentially acceptable sites and buildings was drawn up and then further refined for negotiation purposes.

21.23 In the first instance, potential sites were shortlisted based on three criteria, site location, site characteristics and site size, with each criteria given equal weighting in the ranking process. Thereafter, site ownership and cost, as well as client preferences were taken into account in selecting sites from those shortlisted.

21.24 OPW ultimately procured 22 sites and one State agency, FÁS, procured its own site.

Cost of OPW Procured Sites

21.25 Property consultants were engaged by my Office to provide benchmark costs for sites acquired. The benchmark set out lower and higher levels for categories of location. A derived average is also used to evaluate the outlay by the State. While the benchmark levels are useful as broad indicators they could have limitations in individual cases because

- the benchmarking exercise on market value was a desk-top exercise
- benchmark values are by definition averages taken over a large number of transactions in a wide range of locations.

21.26 Overall, 15 of the 22 sites were acquired at prices below the average benchmark level while in seven cases the price paid exceeded that level. The 22 sites were acquired for €69.7 million, which, in aggregate, was lower than the lower benchmark levels. The results of the benchmarking exercise are set out in Figure 110.

Figure 110 Comparison of Site Cost with Benchmark Cost for sites procured by OPW, 2005-2008

Relationship to benchmark	Below lower benchmark	Above lower benchmark but less than average	Above average benchmark but less than higher benchmark	Above higher benchmark	Total
Number of sites	8	7	1	6	22
Number purchased from private ownership	1	3	1	5	10
Total acres purchased	32.4	30.1	3.1	21.2	86.8
	€m	€m	€m	€m	€m
Total Cost	29.4	15.3	2.9	22.1	69.7
Lower benchmark cost	55.2	11.1	1.6	5.8	73.7
Average benchmark cost	75.4	25.7	2.3	10.5	113.9
Upper benchmark cost	95.5	40.4	3.1	15.2	154.2

Source: Lisney — Examination of Property aspects in the implementation of decentralisation, December 2008.

21.27 11 of the 15 sites where the purchase price was less than the average benchmark price were purchased from local authorities and other State agencies¹⁶². By comparison, five of the six sites where the price paid was higher than the upper benchmark level were purchased from private owners.

¹⁶² These sites were mainly purchased from local authorities with one site in Portlaoise purchased from the IDA.

21.28 In relation to these six sites where the price paid exceeded the upper benchmark level, four were in the environs of small towns and two were in provincial towns. The total cost of these six sites was €22.1 million as compared with an upper benchmark level of €15.2 million. Details in relation to those six sites are set out in Figure 111.

Figure 111 Sites Acquired above Upper Benchmark Levels, 2005 to 2008

Location	Upper benchmark	Total Outlay	Excess over benchmark
	€m	€m	€m
Mullingar	5.3	8.2	2.9
Newbridge	4.0	5.5	1.5
Claremorris	1.3	2.5	1.2
Roscommon	2.1	3.0	0.9
Thomastown	1.5	1.8	0.3
Buncrana	1.0	1.1	0.1
Total	15.2	22.1	6.9

21.29 OPW stated that in all cases sites were acquired at a rate that was within the range of values being achieved for commercial sites in the area. OPW provided the following comments in relation to the individual sites purchased.

- Mullingar — Three alternatives were identified, one was rejected due to zoning restrictions and the other on the basis that it was not as well located. The remaining site was purchased.
- Newbridge — While three sites were initially short listed by OPW, none were deemed suitable. The local authority subsequently put forward a suitable site. OPW also drew attention to the specific requirements of the client to erect a four-metre perimeter wall and noted that the site purchase facilitated significant community benefits.
- Claremorris — Four sites were shortlisted, three in ownership of a development company that was not able or prepared to provide the required site.
- Roscommon — 21 proposals were received, two were shortlisted but deemed too expensive. A further site was identified and purchased.
- Thomastown — Three sites were shortlisted. One was outside the town and only suitable for the client if nothing else was available. A further site was too big. The remaining site was purchased.
- Buncrana — OPW noted that two other sites on offer were more expensive and inferior.

Results of OPW Benchmarking

21.30 OPW employed consultants to review the cost of sites purchased for the decentralisation programme. Two different bases were used

- A review of the price paid in each individual transaction by reference to the consultant's opinion of the likely land value appropriate for that transaction in the period 2004-2008. Using this method the consultants concluded that OPW had paid in excess of the market value in three cases.

- The second basis of comparison was by reference to average land prices outside Dublin in the period 2004-2008. Transactions were categorised between large urban centres and small urban centres. Using this method of evaluation the consultants concluded that the price paid exceeded the benchmarks in six cases, was below the benchmarks in 15 cases and was within the benchmark in one case.

Cost of FÁS Site

21.31 In December 2004, the Board of FÁS approved in principle a proposal to purchase a 5.59 acre site at a cost of €1.5 million (€275,000 per acre) for a new head office.

21.32 In August 2004, property consultants had been employed by FÁS to evaluate the value of the site proposed. They concluded that given the particular characteristics of the site its market value would be approximately €700,000 equating to €140,000 per acre. The site was landlocked with the vendor entering into an agreement to provide road access within a specified time period after contract agreement. In response to its property consultant's evaluation, FÁS put forward a revised offer of €150,000 per acre. The vendor rejected this offer. FÁS entered into a period of protracted negotiations with the site owner and finally purchased the site for €1.5 million or €275,000 per acre.

21.33 FÁS stated that although the property consultants had given an indicative value of €140,000 per acre in August 2004, they subsequently raised this valuation to €300,000 per acre as a result of further work and analysis and recommended a price of €275,000 per acre in November 2004.

21.34 FÁS have stated that full planning permission has been obtained for the road access. However, no site works have been undertaken pending the review of decentralisation to be conducted in 2011.

Construction of Buildings

21.35 Contracts totalling €180 million have been awarded in respect of buildings in 12 locations¹⁶³. The two types of arrangements used for procurement of buildings were

- Design/Build — In these instances, information on the output specification, the standards for the building (function, form, sustainability and accessibility) was provided by OPW and its expectations were conveyed to the construction firms. The firms tendering proposed the full designs of the building including all structures, car parking, site development and full internal layouts including furniture configurations.
- Traditional procurement — In these cases, OPW provided tender firms with full sets of contract documentation. Here construction firms were required to complete buildings detailed in the drawings supplied by OPW.

¹⁶³ The total value of the contracts awarded in relation to the 12 buildings was €191 million. In one location while the total contract value was €17.6 million, only €7 million related to decentralisation. Only the decentralisation element is included for the purpose of this report.

Design and Build Procurement

21.36 Nine contracts were procured on a design and build basis. Tenders in the case of design and build procurement were evaluated, with 65% of the marks being awarded in respect of the design and technical aspects of the buildings and the balance in relation to cost. Contracts were awarded to the firm with the highest score using this evaluation process subject to the cost of the project being less than a Public Sector Benchmark (PSB) developed by OPW to assess the cost effectiveness of proposals.

Traditional Procurement

21.37 Three projects were procured through traditional procurement methods. In these cases, OPW provided the building design and estimated the cost of the building based on pricing the relevant Bills of Materials. Overall, in these cases, OPW estimated the cost at €25.8 million. The lowest cost tenders proposed (which were selected in all three cases) amounted to €3.2 million in aggregate.

OPW Benchmark

21.38 The relevant benchmarks set by OPW are displayed in Figure 112.

Figure 112 The OPW Construction Benchmark

Building procurement method	Benchmark cost per square metre	
	Lower Benchmark	Upper Benchmark
Design & Build including fit out	€3,477	€4,103
Traditional	€2,985	€3,553

21.39 The PSB was derived from a financial model based on earlier work done by OPW using construction industry cost norms. The benchmark allowed for the evaluation of proposals using a number of cost comparators, including basic building cost per square metre and total project cost per square metre.

21.40 The application of OPW's benchmark varied

- In two cases, the benchmark was computed by reference to the actual gross floor area proposed by the tendering firm.
- In a further six cases the cost per square metre was calculated on the basis of an indicative gross floor area estimated by OPW.
- In one case (Roscommon) no reference to a benchmark cost per square metre could be located on the file. The tender was selected on the basis of securing the highest marks in the tender evaluation process.

21.41 OPW noted that in all cases where buildings were procured by way of design/build, the size of the buildings proposed by all tenderers was greater than the area indicated by OPW in its output specifications. OPW stated that this was due to differing design solutions devised to address the specific spatial and user requirements in the output specification. OPW is of the view that many of the tenders with larger floor areas had devised design solutions, which would contribute to reduced life cycle costs.

Cost per Square Metre

21.42 Irrespective of the process used to evaluate the tender or the procurement method used, the audit compared the aggregate contract cost with OPW's aggregate benchmarks for the same projects¹⁶⁴.

21.43 Contracts were concluded for a total cost of €180 million in relation to the construction of buildings required for decentralisation. Overall, the costs in relation to 12 buildings were less than OPW's benchmark cost. A comparison of the actual costs incurred and the benchmarks, by type of arrangement is set out in Figure 113.

Figure 113 The OPW Construction Benchmark Compared to Actual Project Cost

	Design and Build including Fit Out	Traditional
Number of buildings	9	3
Total square metres	49,824	7,624
Actual cost	€157m	€23m
Cost based on lower benchmark	€173m	€23m
Cost based on higher benchmark	€204m	€27m

Source: Analysis by the Comptroller and Auditor General

Note:

- a Cost was calculated by reference to the total gross floor area which is the total of all enclosed floor space measured to the internal face of the enclosing walls.

Public Private Partnership Procurement

21.44 Three decentralisation projects in Carlow, Portlaoise and Mullingar were bundled and advertised as one PPP project. The project included the provision of three buildings totalling 35,900 square metres.

21.45 In 2009, the Department of Finance decided not to proceed with the project based on value for money and affordability grounds. Expenditure of €598,000 had been incurred in respect of legal and financial advice procured in order to progress the project.

21.46 OPW stated that the Department of Finance has directed that the building in Portlaoise should progress by way of traditional procurement. The remaining elements have been deferred.

¹⁶⁴ The comparison was based on actual floor areas.

Leasing Arrangements

21.47 37 leases were entered into as part of the programme. 12 of these were long-term lease with terms ranging from 20 to 25 years. The majority had break clauses. The short-term leases had lease terms of between one and seven years.

- In total, OPW procured leases in respect of 34 buildings comprising 38,400 square metres of office space.
- In relation to the three remaining leases, the procurement was conducted by the decentralisation organisation.

Leases Procured by OPW

21.48 The property consultants engaged as part of the audit provided reference benchmark values. Taking account of the location and size of the buildings leased, the property consultants concluded that annual lease costs should be between €6.4 million and €8.5 million. The annual lease costs of property acquired, as part of the programme was €6.6 million.

21.49 However, a further €26.5 million was spent fitting out the buildings. The real cost of a leased property comprises annual lease payments and amounts expended on fitting out properties¹⁶⁵ for occupation. For purposes of this audit fit-out costs have been included with the lease cost for the purpose of evaluating the value for money obtained. The fit-out costs have been written down over ten years or over the expected length of the lease whichever is shorter. The results are set out in Figure 114.

Figure 114 Comparison of Lease Costs with Benchmarks, 2004 - 2008

Location	Number of Leases	Area m ²	Annual Cost ^a	Benchmark ^b	Benchmark ^b
			(incl fit-out) €	Lower Band €	Upper Band €
Satellite commuter town to Dublin city	2	5,415	1,538,200	1,283,300	1,570,400
Provincial city	5	7,896	2,148,200	1,697,600	2,131,900
Large provincial town	15	13,503	2,949,600	2,174,000	2,903,100
Small town	12	11,560	3,205,900	1,248,500	1,861,200
Total	34	38,374	9,841,900	6,403,400	8,466,500

Source: Analysis by the Comptroller and Auditor General.

Notes:

- a Fit-out costs have been included in the annual lease cost based on write down over ten years or the length of the lease whichever is shorter.
- b The benchmarks were developed on the basis of the cost of procuring modern office accommodation with locations classified into four categories small town, large provincial town, provincial cities and satellite commuter towns to Dublin City.

21.50 When account is taken of fit-out costs, the annualised cost of acquiring leasehold property is approximately €9.8 million. The adjusted annual cost exceeds the upper benchmark cost estimated by the property consultants in relation to these buildings of €8.5 million. The prices

¹⁶⁵ These costs were provided by OPW or the decentralising agency.

paid (taking account of annual rental costs and annualised fit out costs) exceeded the benchmarks set in 19 of the 34 leases. The excess over the benchmark costs in these cases was just under € million per annum.

21.51 OPW has contested the inclusion of fit-out costs in calculating a ‘real’ rental cost on the following basis

- It stated that premises are offered to the market in a full spectrum of conditions, ranging from ‘shell’ (grey concrete floors, walls and ceilings) to fit-outs in near walk-in condition and/or anything in-between.
- It noted that buildings offered with advanced fit-outs can be misleading in terms of value, as a “one size fits all” standard rarely matches individual client requirements.
- It also noted that OPW has statutory compliance obligations over and above private sector standards particularly as regards universal access. OPW states that much available modern office accommodation is not compliant with current regulations and standards. Accordingly, expenditure on fitting out premises, by OPW, for use as public offices, even for a relatively short period can appear high.

21.52 Consultants employed by OPW assessed the cost of leased property using different criteria. Leased transactions were split between those in large urban centres and those in small urban centres. A benchmark was identified for a variety of building types to take account of the state of the building. The rental costs were compared against the benchmarks developed. In that evaluation, no account was taken of fit-out costs. The consultants concluded that OPW paid in excess of the benchmark rental costs in seven of the 36 leases examined¹⁶⁶.

21.53 In relation to procuring short-term leases, OPW stated that, the criteria used for decisions to proceed with the provision of advance accommodation were drawn up by the Implementation Group. Effectively, the decision to proceed was based on the ‘cost per job’ per annum. This figure was comprised of annual rent plus once off fit-out costs per person, for the estimated duration of the short-term lease.

21.54 It went on to say that the estimated costs of temporary accommodation were weighed against the business case made by the client department to have a presence in the host location for operational reasons, in advance of permanent decentralisation. Thus, the final decision to proceed or not with expenditure on short-term advance offices was made by the Department of Finance and the Implementation Group on the basis of expenditure estimates submitted by OPW and the business case made to them by the decentralising client department.

¹⁶⁶ Some leased properties comprised more than one lease. The total leases examined by the property consultants differs slightly from the numbers of leases referred to earlier in the report.

Cost of Leases Procured by Decentralising Organisations

21.55 Three State bodies, FÁS, Pobal and the Health and Safety Authority (HSA), procured leasehold accommodation for staff decentralising.

FÁS

21.56 In 2007, FÁS entered in to a ten-year lease¹⁶⁷ in respect of a 708 square metre building in Birr at an annual cost of €9,000. It was planned that 40 staff would move to these offices. 20 staff have moved to date.

21.57 In December 2006, FÁS entered into a contract valued at just over €1 million for the fit-out of the leased building. Only one firm, the landlord's building company were asked to provide quotes for the fit-out contract. FÁS stated that the fit-out tender provided by the contractor compared favourably with a cost plan developed by the quantity surveyor employed by FÁS.

21.58 The total cost of a lease would have to take account of amortisation of fit-out costs as well as the annual lease payments. Using a ten-year timeframe to write down the fit-out costs incurred, the annual cost of the lease is just over €200,000 per annum — 77% higher than the upper benchmark for leased offices in that area.

Pobal

21.59 In February 2007, Pobal entered in to a five-year lease in respect of a 349 square metre building in Clifden at an annual cost of €81,893. Pobal also entered into a contract valued at €60,611 for fit-out of the building. It was planned that 42 staff would move to these offices. 25 staff have moved to date.

21.60 Using a five-year timeframe (the duration of the lease) to write down the fit-out costs incurred, the annual cost of the lease is €4,000. Over the term of the lease the annual cost will exceed the benchmark by 25%.

21.61 Pobal noted that suitable available office space in Clifden was limited and only two potential offices had been identified.

Health and Safety Authority

21.62 In 2008, the HSA entered in to a ten-year lease in respect of a 905 square metre building in Kilkenny at an annual cost of €271,924. It was planned that 50 staff would move to these offices. 29 staff have moved to date.

21.63 The annual cost of the lease is 11% higher than the upper benchmark for leased offices in that area.

¹⁶⁷ The lease contained a five-year break clause.

Views of OPW in relation to Property Acquisition Costs

21.64 OPW stated that the economic and market context in which the decentralisation programme was undertaken, had a significant impact on the outcomes in terms of property acquisitions. Some of the factors that influenced the cost were

- a public announcement of Government policy that specific government departments or agencies were to locate in designated provincial towns, and within a challenging time frame of 3 years
- a rapidly inflating property market
- the programme represented a major national objective and as a result the expectations of potential vendors on prices were increased
- the State's lack of compulsory acquisition powers for the decentralisation programme.

21.65 OPW stated that from the outset, one of its primary objectives was to achieve the best overall value for money for the State by selecting well located sites, which were fit for purpose. However, in the circumstances of the decentralisation programme, the Commissioners would be seen as 'special purchasers' and in some cases might have been expected to pay a premium over the generally accepted "*Market Value*¹⁶⁸" benchmark to get the most appropriate site on time to enable the programme to proceed.

21.66 OPW noted that the commitment to specific locations meant that the State had to deal with a limited pool of potential vendors who were well aware of its need to acquire a site or building in each of the 53 locations. This prior knowledge could impact its bargaining position. In those circumstances, the Commissioners were unable, without Government approval, (unlike, for instance, an expanding retail chain) to relocate to an adjoining town, when faced with a difficult market in a particular location.

21.67 OPW noted that property consultants had highlighted this problem in February 2004 in a report prepared to advise on an Implementation Plan. The consultants then stated "*it has to be accepted that the opportunities for achieving the most cost effective solution are limited, due to the information now in the market, and the knowledge of a tight time-scale needed for delivery. The property cost will depend on the number of opportunities presented in each location, and the timing for their availability.*"

21.68 OPW sought the updated views of the property consultants originally employed on the decentralisation project in relation to this examination. They are of the view that Market Value/Market Rent are not, on their own, appropriate measures of Value for Money in the decentralisation programme. They point out

- Either the landlord/landowner or the purchaser/tenant may have acted "with compulsion". For example, a Local Authority that was motivated to secure the decentralised office for the local town might be prepared to dispose of a property or rent a property to the OPW on very attractive terms to the occupier in order to ensure that the office was delivered and the planned decentralised jobs were delivered to the town.
- In other circumstances, the OPW may have been under some compulsion to deliver accommodation and landlords or landowners were aware of this and therefore were in a position to seek a price above Market Value and the OPW were in some instances required

¹⁶⁸ Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing wherein the parties each had acted knowledgeably, prudently and without compulsion.

to agree to this level in order to ensure that the property was secured on time, particularly where the preferred option was the only realistic solution in that town.

- The most appropriate definition of value in the context of the decentralisation programme is 'fair value' or 'worth' defined as a situation where the party is willing to pay a figure above market value or market rent for a property in order to ensure that it is secured and delivered within a particular timescale. This is particularly the case where it is recognised that only one property is available.

21.69 In addition, OPW drew attention to the difficulty in procuring leased accommodation in relation to advance office space in small towns. It stated that most of these towns had very limited options for suitable office accommodation. The norm in many cases would be one or two-roomed first floor offices over shops. Much of the speculative development, then on the market, was commercial, retail or industrial type space in shell condition and in some cases planning permission for change of use to offices was necessary to convert retail or industrial space prior to any agreement to let to OPW.

Conclusion

Following the deferral of elements of the decentralisation programme, pending a review in 2011, the movement of approximately 6,600 staff from Dublin to locations across the country has been deferred. 3,148 staff had moved by April 2010 and current arrangements allow for the decentralisation of a further 1,191 staff.

Twelve sites costing €43.8 million have been acquired in locations where the decentralisation programme is not currently being advanced.

The general property environment has altered making it unlikely that, in the medium term, OPW can effect early surrenders in advance of expiry or lease break dates.

In acquiring the property for the programme

- Six of 22 sites were acquired at prices above a higher benchmark set by property consultants engaged by my Office. On the other hand, eight sites were acquired below a lower benchmark.
- Most of the sites acquired at low cost were already owned by local authorities and, in one case, by a State body.
- FÁS paid more than double the initial valuation placed by its own property consultants on a site at Birr.
- Most building work came in at less than OPW benchmark costs.
- In aggregate, the all-in cost of leased premises exceeded even the highest benchmark cost.

Overall, while benchmarks are useful in gauging whether the State got value in these transactions, account would also need to be taken of the motivation of the vendors

- Local authorities may have pitched prices at levels that would attract jobs to their areas
- Private vendors with property in town centre locations would be able to demand a premium based on the need for OPW to implement the decentralisation decision.

Rationalisation of the State property portfolio has not occurred to the extent envisaged. OPW reports that space freed up is spread throughout the office portfolio in small pockets across a number of buildings. It noted that it would need a stronger more directive role to drive effective rationalisation.

