

**SUBMISSION BY THE
NEW ZEALAND BUSINESS ROUNDTABLE
TO THE GOVERNMENT ADMINISTRATION COMMITTEE**

**PROPOSED NEW PARLIAMENTARY
BUILDING**

JUNE 1997

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1.0 Introduction

1.1 This submission is made on behalf of the New Zealand Business Roundtable, an organisation of chief executives of major New Zealand business firms. The purpose of the organisation is to contribute to the development of sound public policies which reflect overall New Zealand interests.

1.2 The proposed building has received much attention in the media and a petition opposing it has attracted almost 200,000 signatures. We suggest the following issues arise with the proposal and should be considered by the committee:

- the appropriate procedures for making a decision on the building;
- the timing of the decision;
- the nature of the requirements;
- the alternatives to a new building; and
- the likely cost of the new building relative to the benefits of the proposal.

2.0 Appropriate procedures

2.1 The proposed new building, together with the refurbishment of the Executive Wing ('the Beehive'), will provide accommodation for ministers and their staff and for some MPs. Some \$124 million of public funds is involved, plus permanent and major improvements to the parliamentary site. As ministers and MPs will be the direct beneficiaries of the decisions made, a proper and transparent process for decision making is vital.

2.2 The minimum that could be expected is a full evaluation of alternatives by Treasury and/or an independent third party, made available for public scrutiny and, preferably, the opportunity for discussion via a green or white paper. None of this has occurred. Consequently, the public has limited information on which to determine the merits or otherwise of the proposal and to compare it with alternatives.

2.3 Instead, various statements have been made by ministers and through the Parliamentary Services Commission (PSC). The PSC's expertise and role lies in serving parliament and ministers; it is not an independent source of advice and does not have expertise in financial assessment or property development.

2.4 Work has already begun on the site and tenders invited for a tightly specified design. Briefing papers, such as they are, are not to be released until after the tenders have closed. This gives the government the ability to short-circuit any discussion: it is either too early to release details or will be too late to discuss them.

2.5 Whatever the merits of their case, ministers and parliament will have diminished credibility if the matter continues to be pushed forward in this manner. Thus, more than a new building is at stake. To provide confidence that a sound approach is being followed, open and informed discussion on the building and alternatives is needed. Otherwise, the label 'palace' - with its negative connotations -

will not only hang over the new building but also tarnish ministers and parliament as a symbol of poor quality decision making.

3.0 Timing

3.1 On its web site, the PSC states:

"The new Parliamentary Building and the refurbishment of the Beehive complete the Parliamentary Services Commission's long term accommodation strategy for parliament for the next 50-100 years."

3.2 This is an extraordinary and revealing assertion, for several reasons.

- Few, if any, other property managers would believe that they could formulate a strategy for the "next 50-100 years".
- Experience with parliamentary buildings contradicts this. The Beehive was first occupied in September 1980. It has taken under 17 years for the project to become an albatross around the PSC's neck. The more recent Bowen House (started in 1990) has apparently plunged in value from \$85 million at the date of commissioning to a government valuation of \$38 million last year. Again, the government's planning and forecasting ability appears to have been deficient.
- The first MMP parliament and government is less than a year old. A review of MMP is due within five years. It is unclear whether MMP will be retained or, if it is, how it may bed down. Thus, future parliamentary and cabinet demands are uncertain. The government's role is also continuing to change and, in some areas, diminish. We believe there is good reason for reducing the current number of 120 MPs and 26 ministers with 75 portfolios over the next few years. The number of 80 MPs suggested by New Zealand First seems reasonable and the size of the cabinet might well be reduced to perhaps 12 - 15 members. The size of the Department of the Prime Minister and Cabinet and the numbers of ministerial support staff might also shrink. The construction of a large new bulding might be used as an excuse for not proceeding with such downsizing.
- Technological changes may well see the introduction of electronic voting by MPs, and the further alteration of office equipment and work patterns. Building technology is also likely to advance.

3.3 The significant possibility of parliamentary and/or cabinet downsizing within a few years suggests that major decisions should not be rushed and should not be based on an assumption that current accommodation requirements will continue to have to be met. The likelihood of technological changes suggests that any investments should have a relatively short-term payback.

3.4 Lacking documentation, we are not clear how pressing are the current space shortages or the lack of quality facilities. However, with the General Assembly Library and Legislative Chamber just having been refurbished, with Bowen House being less than 10 years old, and with numerous other government buildings in the immediate vicinity of parliament, an irresolvable crisis appears unlikely.

4.0 Requirements

4.1 The broad requirements for housing ministers and MPs have not, so far as we are aware, been set out anywhere. However, statements by ministers and the PSC and media reports suggest that, aside from normal expectations of office accommodation, they include the following:

- (a) that ministers and MPs should be housed in buildings with extensive corridor and lobby space to enable casual meetings and socialising;
- (b) that ministers and MPs should be within easy access of the House when the division bell is sounded;
- (c) that ministers should each have their own en suite shower;
- (d) that the approximate current size of ministers' personal office space (excluding facilities, support staff etc.) be preserved (for senior ministers, 80 sq m - the size of a small house); and
- (e) reasonable security, soundproofing and earthquake safeguards for the prime minister, senior ministers and, preferably, others.

Also, by all accounts, ministers are keen to move out of the Beehive.

4.2 In setting out any such requirements, the costs and benefits of each need to be assessed. Information is lacking to carry out such an assessment with respect to the proposed new building. However, we would make the following comments.

4.3 On (a), the need is disputed by some MPs. We would be surprised if ministers have a great deal of time for casual meetings in corridors. In any event, the provision of, say, a coffee bar or other social facilities (in addition to Bellamy's) within the parliamentary complex may be a much lower cost means of facilitating socialisation by MPs and ministers than insisting on low rise buildings with wide corridors. We are unaware of any private sector corporations with similar requirements that have approached the problem in this way.

4.4 On (b), we understand that following changes to Standing Orders for MMP, the division bell has sounded only three times in the current parliament. Normally MPs do not have to be in the House to vote. Thus, the importance of (b) is doubtful. The PSC in its material notes that "MPs currently housed in Bowen House complain about the length of time it takes to travel down from the floors in Bowen House, across the travelator to the Beehive then on again into Parliament House to the debating chamber". As the travelator was built at several million dollars of public expense for this purpose, the issue of accountability for this decision is raised. In the United Kingdom, MPs face a considerably longer trip from their accommodation on Whitehall to the House of Commons, and most British ministers are more distant again as they are housed with their government departments. The potential for electronic voting reduces the weight of this argument even further.

4.5 On (c), the question is why ministers should expect such a privilege. Given their often long hours, it may well be appropriate for ministers to have access to shared executive shower facilities, perhaps even a gym. However, the provision for individual shower facilities for every minister is extravagant. Few corporate executives would expect dedicated facilities. Indeed, we understand that most office

buildings - including Bowen House - are only plumbed on one wall, thus restricting the number of shower facilities that can be fitted.

4.6 On (d), we understand that the SSC-recommended scale of office space for public servants is an average of 12 sq m/person (including walkways etc.) and private sector building managers would typically allow 20sq m/person for senior managers. The spaciousness of senior ministers' offices seems excessive. Visitors to such offices discover that large, empty spaces are typical. The meeting tables are dwarfed by the space around them and extra seating has to be rustled up in the event of a press conference or larger meeting. Unlike most modern buildings, the Beehive lacks small and medium-sized meeting rooms and group spaces. These, rather than massive areas of walled-off personal space, are the modern and cost effective solution for senior decision makers.

4.7 On (e), we would note that security and confidentiality requirements are an issue for most large corporates. We would not expect soundproofing and security for ministers to impose significant extra costs.

5.0 Alternatives

5.1 As papers have not been released, we are unable to comment on specific alternatives. We would note, however, that in addition to the Beehive, the annex, and Bowen House, there is also No 1 the Terrace (which housed some ministers until recently), the Reserve Bank building, which houses part of the Prime Minister's Department, plus several large government-occupied buildings on Bowen Street (of which the Ministry of Commerce building is of high quality).

5.2 Thus we suspect that there are numerous possible accommodation configurations for ministers, ministerial staff and MPs - both as a temporary expedient during the refurbishment of the Beehive and as a longer-term alternative to the proposed new building.

5.3 We understand that a 1994 examination of options by officials identified an alternative costing at some \$48 million, which included \$35 million for a new building, \$6.3 million for temporary accommodation in Bowen House, and \$6.5 million for structural alterations. The basis on which this was rejected is not known. The government should explain the reasons for rejecting this and other options. The approach of other countries which locate ministers with their departments would also be worth exploring.

5.4 The elaborate requirements outlined in (a) to (e) above, if imposed, may collectively rule out all but a new building for ministers - for example because Bowen House is too far from the Legislative Chamber and only the Beehive or the proposed new building can provide an enormous number of showers. However, the balance of costs and benefits must be weighed. What requirements are met by what alternatives? Thus, what is the cost to the taxpayer of insisting that all requirements be met? Is this commensurate with the benefits?

5.5 Comments in the media suggest an aversion by some ministers to renting accommodation, notably Bowen House. Setting aside the point that Bowen House is

owned by a Crown entity and thus the government is renting from itself, there are several factors in determining whether to rent or own.

5.6 Rental provides flexibility (the tenant can move out, subject to lease conditions) and less risk, and capital is freed up. Ownership provides a return on capital deployed and greater control.¹ The decision to own or rent should be made on the facts of each case. The government has no special expertise as a property owner and thus renting accommodation may well be appropriate where there is not a clear and long-term need for use-specific accommodation. In recent years it has fared better as a lessee than a lessor of Bowen House. In the case of Radio New Zealand's accommodation, the government did not accept that leasing was an inferior option.

6.0 Cost

6.1 The figure of around \$94 million in fact understates the cost of proceeding for two reasons.

- The Beehive will have to be extensively reconfigured for occupation by MPs rather than ministers and staff, increasing the cost of refurbishment. (Whether the estimated \$30 million for refurbishment of the Beehive is adequate to the former or only the latter is unclear to us.)
- The option of alternative uses for the site to be occupied, including part occupation by Broadcasting House, is lost. Short-term possibilities might include some use of Broadcasting House by Radio New Zealand or MPs. If the new building is not needed now, why lose the option on the one usable site by parliament?

6.2 The \$94 million for the new building itself is hard to assess as the building has unusual characteristics and the price includes 'furnishings'. A modern, up-market office block providing the floor space proposed might be expected to cost some \$50 million when fitted and bring in an annual rental of around \$4.5 million. It also might be expected to house 600-plus people, including 26 senior executives, rather than the number of around 400 in the proposed new building.

6.3 Thus, as with the rejected 1994 option, there appears to be an excess cost of around \$40 million with the new building - or some \$4 million/year (using 10 percent as a conservative figure to cover both cost of capital and depreciation.) This annual cost of around \$4 million is the cost of meeting whichever of the requirements listed earlier are driving the decision.

- If the driving factor is (a), then, as remarked earlier, socialisation needs can be met for a tiny fraction of this amount through joint social facilities or nearby private options.
- If (b), and if the 37 MPs and 7 ministers currently in Bowen House each make 2 return trips from Bowen House to parliament per day for 200 days/year,

¹ The CBD property market tends to be cyclical: BOMA figures for the 1996 year show CBD office returns (income plus capital) to owners averaged 7.47 percent in New Zealand, and 5.39 percent in Wellington. Thus, returns in Wellington were lower than the cost of capital to the government. In the longer term, returns may be expected to average 8-9 percent.

i.e. a total of 17,600 return trips each year, then the cost to the taxpayer of sparing them this is *some \$110 for each (underground) crossing of Bowen Street*. This makes MPs' reported usage of taxis seem good value.

- If (c), and if the 26 ministers each use their personal office shower once for 200 days/year, i.e. a total of 5,200 showers/year, then *the cost to the taxpayer each time a minister steps into an office shower is some \$750, plus hot water*. No doubt, very superior health club facilities could be provided for a tiny fraction of the \$150,000 annual cost per minister. One wonders how ministers would react to the option of a club that charged them \$150,000 per annum for providing personal shower facilities.
- Factors (d) and (e) could almost certainly be met without the new building, or such an expensive new building. Furthermore, if the size of ministers' offices were reduced, then the cost of the new building, or alternatives, would be reduced and more facilities could be fitted into existing space.

6.4 The above list brings out two factors.

- Individual MPs or ministers would be unlikely to be prepared to meet even 1 percent of the annual cost of the features proposed if they were paying for them from their private income.
- Even with the huge cost of the proposed building, existing facilities are reproduced rather than developed. We understand that the parliamentary complex has various showers and two gyms (one for staff, one for MPs), and one restaurant. There are showers in the Beehive in ministerial offices - available to others at each minister's discretion. The Beehive is short on meeting rooms because meetings usually take place in ministers' offices.

6.5 A lower cost option could well involve additional cafes, health and shower facilities and well-equipped meeting rooms for all, or just for ministers, at much lower cost than the proposed new building. If the building is proceeded with, the likelihood is that such needs will soon emerge and have to be catered for at further expense.

6.6 The PSC in its material places some emphasis on the flexibility of the proposed new building. Its strategy appears to be like that of the computer buyer who, faced with a rapidly changing market, opts to buy the most expensive computer available in the belief that its array of features will ensure it is good for 10 years. The wiser policy is to keep expenditure low, use add-ons to achieve flexibility and accept that further changes will occur.

6.7 Thus, although the new building is expensive because it is based on current expectations, it may fail to meet actual needs for precisely that reason.

6.8 Some specific features of the proposed new building are also worthy of comment.

6.9 First, a building of the proposed size could, we understand, be accommodated without demolishing Broadcasting House. The public space to be

provided in front of the building is at the cost of the existing structure. Presumably, this is felt necessary to achieve some grandeur.

6.10 Secondly, a surprising feature of the proposed new building is the 2,780 sq m of basement storage. Electronic storage might have been expected to reduce such needs and there is no evident need for large scale storage on site of either documents or office supplies.

6.11 Thirdly, the building is to incorporate two two-storey links to Parliament House. This seems most generous, especially given that the proposed new building is no mere annex, dependent upon a main building for facilities.

6.12 Fourthly the new building will have a "floating acoustic floor". This is not to guard against earthquake risk but to dampen any noise from plant. Such dampening is unusual for commercial office buildings and seems like extravagant gold-plating.

7.0 Conclusions

7.1 To date the process for decision making on the proposed new parliamentary building has been unsatisfactory. It jeopardises the credibility of ministers and MPs who may be perceived to gain from an expensive building plan and non-transparent decision making.

7.2 The timing of the process has been rushed and the timing of the decision is inappropriate, as MMP may not be retained or may be modified. Currently the number of MPs and ministers may well be at a high point. Changes to Standing Orders have made the physical presence of MPs in the House unnecessary for the purposes of many divisions and electronic voting may change the situation further.

7.3 The features required for the new building and the re-housing needs of MPs are not clear but those that have emerged may not be necessary or may be achievable by much lower cost methods.

7.4 Information is lacking on which to evaluate alternatives but there are likely to be several, given the range of office buildings in the immediate environment of parliament. The new building may well not meet future requirements and thus further expensive building work could soon be required on the parliamentary site, the PSC's 50-year strategic plan notwithstanding.

7.5 At present, the private sector is struggling under the impact of a massive expansion of government spending in the last two years and a further projected blow-out of \$5 billion under the Coalition agreement. In the interests of helping to correct this imbalance and insisting on rigorous scrutiny of public spending, business organisations have rejected proposals for \$100 million of business assistance. We believe this is not the time to be spending a similar amount on a new parliamentary building. We submit that an open process of re-evaluation should be undertaken along the lines suggested in paragraph 2.2.