

**ITEM 10. EXEMPTION FROM TENDER - 343 GEORGE STREET, SYDNEY -
ADDITIONAL SCOPE TO LIFT MODERNISATION CONTRACT**

FILE NO: S121683

SUMMARY

343 George Street is one of Sydney's heritage landmark buildings, constructed in 1925. The building has the benefit of two grand entrances – one from 343 George Street, which is served by two passenger lifts, and one from Barrack Street, which is served by three passenger lifts.

Council invited public tenders for the following scope of works on 16 December 2014:

- Lifts 1-3 (Barrack Street) to be modernised with the original scope reflecting a complete overhaul of the existing passenger lifts, including replacement of the hoisting machines, control systems, door systems, lift car refurbishment, code compliance and safety items.
- Lifts 4 and 5 (George Street) to be fitted with a code compliant lift car interior refurbishment and upgrade of safety items within the car only.

The Resolution of Council of 27 April 2015 enabled the City to enter into negotiations with suitably qualified contractors. Appointment of a contractor was approved by the Chief Executive Officer on 23 June 2015. From July 2015 to early 2016 the design was completed and orders were placed for the new lifts. Work on site commenced in May 2016. Work has now progressed, with one lift on Barrack Street commissioned in August 2016 and the remainder of works to be completed by March 2017.

During the works, it has become apparent that the original scope to provide minor upgrade to lifts 4 and 5 on George Street did not adequately factor in maximum traffic demand associated with a fully leased premises, the additional traffic load while one lift is out of service during the current lift renewal works, and also the reliability and timeframe to procure the existing components of these aged lifts in the event of a failure.

The City is looking to expeditiously improve the lift services of this building to prevent reputational risk, limit potential loss of business with current tenants looking to renew, and perceived work health and safety risks.

The City has investigated the cost to provide the complete renewal of lifts 4 and 5 (George Street) with the current contractor. The submission has been assessed and is considered to provide value for money. In addition, the benefits would enable parts to be procured in a timely manner, minimising disruption and out-of-service times of the existing lifts, providing savings associated with site establishment cost, and allowing the complete renewal of the lifts to be conducted in the shortest possible timeframe.

This report requests approval for exemption from tender to appoint the existing contractor to carry out the work as a variation to the current contract as detailed in Attachment A. It is considered that a satisfactory result would not be achieved by inviting new tenders. The delays caused by the tendering process would prolong the complete renewal works for all the lifts and would result in a lost opportunity to make use of the contractor already established on site.

RECOMMENDATION

It is resolved that:

- (A) Council approve exemption from tender for additional scope to completely renew the two lifts (4 and 5) to George Street at 343 George Street, Sydney as a result of extenuating circumstances;
- (B) Council note the reasons why a satisfactory reason would not be achieved by inviting tenders are:
 - (i) due to the limited suppliers for lift works of this scale and nature, it is likely that no better result would be achieved based on the initial public tender outcome of February 2015. If the work was to be tendered, Council would face prolonged delays of up to 12 months and incur costs associated with site dis-establishment and re-establishment, as well as reputational risks associated with poor service standard of the aged lifts 4 and 5 within the delayed period; and
 - (ii) the costs of the additional scope aligns comparatively with costs of the previous tender price regardless of cost escalation since early 2015. The costs are fair and reasonable and represent good value for money in the current market. As such, value for money has been demonstrated and it is unlikely that a public tender would produce a better result;
- (C) the current head contingency be extended and funds allocated as detailed in confidential Attachment B to the subject report;
- (D) Council accept the proposal from ThyssenKrupp Elevators Australia for the additional scope of works as contained in Attachment A to the subject report; and
- (E) authority be delegated to the Chief Executive Officer to negotiate, execute and administer the contracts relating to the works.

ATTACHMENTS

Attachment A: Details of Additional Scope

Attachment B: Financial Implications (Confidential)

(As Attachment B is confidential, it will be circulated separately from the agenda paper and to Councillors and relevant senior staff only.)

BACKGROUND

1. Prominently located facing Martin Place, 343 George Street is one of Sydney's heritage landmark buildings, completed in 1925 as the headquarters for the Commercial Banking Company in Sydney. The building has the benefit of two grand entrances – one from 343 George Street, which is served by two passenger lifts, and one from Barrack Street, which is served by three passenger lifts.
2. The building was purchased in August 2010 from the Abacus Property Group. The City of Sydney intends to hold this property in its investment portfolio for the long term as it has strong lease covenants and is currently fully occupied.
3. The Barrack Street lifts have not been refurbished since the 1980s and are overdue for an overhaul, including replacement of the hoisting machines, control systems, door systems, internal lift car refurbishment, code compliance and safety items.
4. The George Street lifts were strategically refurbished in 2002 and, although functioning satisfactorily in 2012, the City's lift consultants advised that it was due for a lift car interior makeover and upgrade of car interior safety items only.
5. Investigation of the lifts has been independently undertaken by external consultants, who recommended an upgrade due to the age of the asset and the frequency of breakdowns. The scope formed for the public tender included complete renewal of all three lifts on Barrack Street and only car interior makeover of the two lifts on George Street.
6. Council invited public tenders for the above scope on 16 December 2014. The Resolution of Council of 27 April 2015 enabled the City to enter into negotiations with suitably qualified contractors. The negotiation was successful and was approved by the Chief Executive Officer on 23 June 2015.

CURRENT REFURBISHMENT WORKS

7. Following engagement of ThyssenKrupp Elevator Australia, there was a period of design and orders were placed for the new lifts. Site works commenced in May 2016 with a methodology that entails only one lift to be taken out of service at a time to minimise disruption of services.
8. Lift 3 (Barrack Street) was commissioned in August 2016. ThyssenKrupp Elevators Australia is currently progressing with the renewal works for lift 2. Lift 1 has been programmed before the lifts 4 and 5 (George Street) interior upgrade. All works are scheduled to be completed by March 2017.

PROPOSED ADDITIONAL REFURBISHMENT WORKS

9. Before and during the lift renewal works in July 2016, it was apparent that the frequent breakdowns of the George Street lifts were no longer acceptable. The building has since been fully leased with additional occupants as well as demand for goods movement. The decommissioning of one lift at a time for renewal works also placed additional pressure on all of the remaining lifts.
10. Investigations undertaken revealed that the George Street lifts only had their controllers replaced in 2002, however, all other critical components such as hoist motors remain aged and will need lengthy repair times in the event of a breakdown.

11. A peer review of the original scope of works and a lift audit report were commissioned by an external consultant. The report highlighted that a complete overhaul of lifts 4 and 5 would also be required.
12. The City, as owner of the commercial premises, has the lessor's covenants and obligations to meet a reasonable level of performance standards.
13. There are many benefits in extending the scope to provide a complete overhaul of lifts 4 and 5 with the existing contractor. These include the expedition of the procurement of lifts which generally takes up to six months, reducing the cost of preliminaries associated with site establishment and dis-establishment, and minimising prolonged disruption periods associated with lift works and having one lift out of service.
14. To expedite the works, it is proposed that the additional scope be carried out as variations to the existing contract with ThyssenKrupp Elevators Australia.

FINANCIAL IMPLICATIONS

15. Additional funds are required to complete the additional works in the 2016/17 and 2017/18 financial years.
16. The Property Related Project Program 2019/2020 budget will be brought forward to fund the required shortfall in the project budget.
17. The financial implications of the requirement for the additional scope and required contingency are outlined in confidential Attachment B.

RELEVANT LEGISLATION

18. Section 55(3)(i) of the Local Government Act.
19. The tender has been conducted in accordance with the Local Government Act 1993, the Local Government (General) Regulation 2005 and the City's Contracts Policy.
20. Attachment B contains confidential commercial information of the tenderers and details of Council's tender evaluation which, if disclosed, would:
 - (a) confer a commercial advantage on a person with whom Council is conducting (or proposes to conduct) business; and
 - (b) prejudice the commercial position of the person who supplied it.
21. Discussion of the matter in an open meeting would, on balance, be contrary to the public interest because it would compromise Council's ability to negotiate fairly and commercially to achieve the best outcome for its ratepayers.

CRITICAL DATES / TIME FRAMES

22. The key program dates are:
 - (a) Current project completion March 2017
 - (b) Lift 4 Installation May - July 2017
 - (c) Lift 5 Installation August – October 2017

OPTIONS

23. To tender the works upon completion of the current contract. Delays caused by the tendering process would impact on the completion of the refurbishment works as lifts 4 and 5 car interior refurbishment, in original scope, cannot be undertaken when a tender is being undertaken for its complete renewal. This would not be recommended due to rework, a lost opportunity to make use of the contractor already established on site, and the resultant delay to the works leading to increased potential reputational risk and leasing liability.

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