

**Item 14.****Exemption from Tender - Preparation of Principal's Project Requirements Documentation for Interior Fit Out of Business Innovation Space in Lendlease (Circular Quay) Voluntary Planning Agreement**

**File No: X004710**

**Summary**

The City of Sydney has entered into a Voluntary Planning Agreement with Lendlease (Circular Quay) Pty Limited (Lendlease (Circular Quay)) to secure public benefits in the development at 174-186 George Street and 33-35 Pitt Street, Sydney.

The public benefits include a Business Innovation Space on Levels 1-3 of the office tower and a monetary contribution for its fit out.

The performance brief, attached as an annexure to the Voluntary Planning Agreement, requires Lendlease (Circular Quay) to deliver the Business Innovation Space as a minimally finished interior with limited services (air-conditioning, power back-ups and other improvements such as fire protection and amenities) installed with the City of to undertake the remaining fit out using funds from the monetary contribution.

The City has requested a proposal from Lendlease Building Pty Limited (Lendlease Building) to prepare principal's project requirements documentation for the fit out, suitable for obtaining a fixed price for the fit out, developed design and construction.

If, as a result of the preparation of the documentation, the City requires modifications to the base building, Lendlease (Circular Quay) should be notified as soon as possible, to minimise the costs to the City of these changes and by January 2019 to align with their base building works program.

Lendlease Building's existing knowledge of the base building makes it uniquely capable of preparing the principal's project requirements documentation to meet the deadline for notification of base building modifications.

## Recommendation

It is resolved that:

- (A) Council note that due to extenuating circumstances, a satisfactory result would not be achieved by inviting tenders for the preparation of Principal's Project Requirements documentation for the fit out of the Business Innovation Space at 174-186 George Street and 33-35 Pitt Street, Sydney;
- (B) Council note that the reasons a satisfactory result would not be achieved by inviting tenders are:
  - (i) Lendlease Building Pty Limited has existing knowledge of the base building that is required to meet the deadline for notification of base building modifications; and
  - (ii) existing knowledge of the base building is not as readily available to other potential tenderers and as a result they would not be able to present proposals that would represent value for money or meet the deadline for notification of base building modifications;
- (C) Council approve an exemption from tender for the preparation of Principal's Project Requirements documentation for the fit out of the Business Innovation Space at 174-186 George Street and 33-35 Pitt Street, Sydney;
- (D) authority be delegated to the Chief Executive Officer to negotiate, finalise and enter into any documentation necessary to give effect to this approval and to administer the contracts; and
- (E) Council note the financial implications, as outlined in Confidential Attachment A to the subject report.

## Attachments

- Attachment A.** Preparation of Principal's Project Requirements Documentation - Financial Summary (Confidential)

## Background

1. In October 2015, Lendlease (Circular Quay) submitted a proposal to the City of Sydney to amend the planning controls applying to land within the city block bound by Alfred, Pitt, Dalley and George Streets, Sydney, to facilitate a development proposal at 174-186 George Street and 33-35 Pitt Street, Sydney.
2. In conjunction with the planning proposal, Lendlease (Circular Quay) offered to enter into a Voluntary Planning Agreement to secure public benefits for new community infrastructure, including a Business Innovation Space to be leased to promote business innovation and economic development.
3. In February 2016, Council resolved to approve the planning proposal for public exhibition and accept the public benefit offer. The Voluntary Planning Agreement was executed in July 2016.
4. In 2016, Council adopted a Tech Startups Action Plan, as part of its Economic Development Strategy. This action plan focuses on creating an environment that enables knowledge-based, innovation-driven businesses to flourish.
5. The Tech Startups Action Plan identifies that the City will use planning regulations to encourage more innovation spaces and/or affordable office spaces. The specific Action 3.2 is to consider using voluntary planning agreements and planning zoning to encourage more short or long-term innovation spaces (including co-working facilities and affordable office spaces) where tech startups are currently clustered.
6. The Business Innovation Space is proposed to provide a focus for start-up related activities and a base for co-working spaces, tech start-ups, accelerators, incubators and investors.
7. The Business Innovation Space consists of 3900sqm (3700sqm net lettable area) on Levels 1, 2 and 3 of the proposed office tower and includes a monetary contribution of \$8,140,000 by Lendlease (Circular Quay) for the initial fit out and any further fit outs over the duration of the lease.
8. The construction, fit out and use of public benefits are largely defined by a performance brief attached as an annexure to the Voluntary Planning Agreement. The performance brief requires Lendlease (Circular Quay) to deliver the Business Innovation Space as a minimally finished interior with limited services (air-conditioning, power back-ups and other improvements such as fire protection and amenities) installed. The City is to undertake the remaining fit out of the Business Innovation Space using funds from the monetary contribution.
9. The design of the fit out to be undertaken by the City, with the monetary contribution to be provided by Lendlease (Circular Quay), requires co-ordination with the base building works that are being undertaken by Lendlease (Circular Quay). The detailed design of the office tower is currently underway, including the procurement by Lendlease (Circular Quay) of key structural and service elements.
10. Any requests for modifications to the base building to accommodate connections between levels or greater worker densities have to be made before January 2019 to meet the Lendlease (Circular Quay) program for the procurement of key elements for the office tower. Failure to meet this deadline may result in constructed work having to be demolished in future along with associated additional expense.

11. The City of Sydney has requested Lendlease Building provide a proposal for:
  - (a) Principal's Project Requirements documentation including a fit out project brief;
  - (b) architectural documentation for the fit out including master plan and concept design; and
  - (c) project management of the fit out master plan and concept design, including programming, engagement of technical consultants and coordination with base building.
12. When completed the Principal's Project Requirements and architectural documentation will enable the City to request a fixed price tender for the developed design and construction of the fit out to the Business Innovation Space.
13. Lendlease Building submitted a fee proposal allowing for:
  - (a) project management;
  - (b) architectural services; and
  - (c) technical consultants.
14. The City engaged Altus Group to review Lendlease Building's fee proposal. Altus Group used industry benchmark fee percentages and hourly rates to adjudicate the appropriate hours set aside for each set of deliverables.
15. Altus Group found the following:
  - (a) The fees for project management are reasonable when benchmarked against rates for other project management companies with which Altus Group have worked on similar projects with similar levels of resourcing.
  - (b) The fees for architectural services are in the lower part of the percentage range expected for projects with a similar capital cost and the proportion required for the scope of services.
  - (c) The fees for other technical consultants are reasonable for the generic scope of design and construct services referred to in the services brief.
16. Altus Group's review of Lendlease Building's fee proposal for the Business Innovation Space established that Lendlease Building's fee proposal represents value for money.
17. In addition to their proposal representing value for money, Lendlease Building has a greater knowledge of the base building than any other possible proponent and is able to readily access information on its development as documentation progresses.
18. The existing knowledge of the base building will allow Lendlease Building to complete the Principal's Project Requirements documentation within timeframes that meet the requirement to request base building modifications by January 2019.
19. The early resolution of the design will enable the City to request modifications to the base building works at the appropriate time in the construction process and avoid the additional cost of requiring constructed works to be demolished or altered.

## Key Implications

### Strategic Alignment - Sustainable Sydney 2030 Vision

20. Sustainable Sydney 2030 is a vision for the sustainable development of the City to 2030 and beyond. It includes 10 strategic directions to guide the future of the City, as well as 10 targets against which to measure progress. This program is aligned with the following strategic directions and objectives:
  - (a) Direction 1 - A Globally Competitive and Innovative City - supporting entrepreneurs to start and to grow innovative businesses will potentially create more employment, boost Sydney's economy, strengthen global connections and make the city a more desirable place to live, work and visit.

### Risks

21. The design of the Business Innovation Space is not conducive to co-working, business innovation and development - the formulation of a workplace strategy through workshops with key stakeholders and reference to benchmark facilities early in the design process will mitigate this risk.
22. The completed Business Innovation Space does not meet the needs of potential operators and future users - City Business has already sought advice on the functional and spatial requirements of the Business Innovation Space from 25 members of the Sydney startup ecosystem and identified nine potential operators through structured consultation.
23. The monetary contribution by Lendlease (Circular Quay) is not sufficient for the cost of the required fitout to the Business Innovation Space - City of Sydney proposes to engage a quantity surveyor at an early stage of design development to identify potential cost overruns and allow any required corrective action to be undertaken.

### Social / Cultural / Community

24. The community which works in the Business Innovation Space will be supported to connect, share ideas, mentor and partner with others through a curated program of events and projects.
25. The Business Innovation Space meets objectives within the Corporate Plan, the Economic Development Strategy and the Tech Startups Action Plan that directly reflect the City of Sydney's commitment to provide the facilities and services to support entrepreneurs and innovation within the community.
26. The Business Innovation Space could also potentially help to deliver on the objectives of the Eora Journey Economic Development Action Plan if indigenous business is identified as one of the sectors recommended for inclusion.

### Environmental

27. The performance brief attached as an annexure to the Voluntary Planning Agreement requires the design and construction of the public benefit components to be consistent with listed overarching design principles that include setting a benchmark in environmental sustainability and exceeding GBCA Green Star 5 Star using the Design and As Built tools.

### **Economic**

28. There is currently a lack of office space in the City of Sydney which can accommodate a variety of uses (including co-working and team spaces) and enable co-working spaces to expand, whilst being affordable and located in the same area as other technology entrepreneurs.
29. This dispersal of start-up activity across the local government area is diluting the potential for technological entrepreneurship and, in turn, the economic and social benefits it can provide.
30. The Business Innovation Space aims to increase the density of the start-up ecosystem and provide affordable space in which technology entrepreneurs can expand their businesses.
31. Encouraging technology entrepreneurs to start and grow global businesses will create more jobs, boost Sydney's economy, strengthen global connections and make the city a more desirable place to live, work and visit.

### **Budget Implications**

32. The proposal to engage Lendlease Building is not currently funded. It is proposed that the total fee (excluding GST) noted in Attachment A be funded from the Capital Works Contingency. It is intended that the costs incurred at this stage will be reimbursed when the monetary contribution is paid by Lend Lease in accordance with the Voluntary Planning Agreement.
33. The operation of the Business Innovation Space may generate income depending on the proposals that are received during the expressions of interest process under the Accommodation Grants Program.
34. Dollar amounts stated in this report are exclusive of GST.

### **Relevant Legislation**

35. Local Government Act 1993.
36. Attachment A contains confidential commercial information which, if disclosed, would confer a commercial advantage on a person with whom City's is conducting (or proposes to conduct) business.
37. Discussion of the matter in an open meeting would, on balance, be contrary to the public interest because it would compromise City's ability to negotiate fairly and commercially to achieve the best outcome for its ratepayers.

### **Critical Dates / Time Frames**

38. November 2018: City of Sydney required to notify Lendlease (Circular Quay) of any modifications to base building structural floor plates (e.g. voids for stairs between levels or set downs in concrete slab for floor finishes).

39. January 2019: City of Sydney required to notify Lendlease (Circular Quay) of any modifications to finishes including addition or deletion of access floors or ceilings.

### **Options**

40. As an alternative to engaging Lendlease Building to prepare the Principal's Project Requirements and architectural documentation, City of Sydney could engage design and technical consultants directly and co-ordinate input from internal and external stakeholders to prepare the Principal's Project Requirements and architectural documentation.
41. The City would be required to obtain information on the base building from Lendlease (Circular Quay) and have this regularly updated as the base building design progressed. Co-ordination with the base building works and identifying whether modifications will be required would therefore be more difficult and take more time.
42. The City would have to allocate greater resources to undertake parts of the project management component that are currently included in Lendlease Building's proposal.
43. The process to procure multiple design and technical consultants separately will take longer than engaging a single consultant and the deadlines to notify Lendlease (Circular Quay), whether modifications are required to base building works, may not be met. This will result in constructed work having to be demolished or modified and associated additional expense.

### **Public Consultation**

44. City of Sydney consulted with 25 members of the local technology start-up ecosystem to inform decisions that will be made on the focus and operational model of the Business Innovation Space.
45. The consultation included nine co-working, accelerators and incubators, eight corporate/industry/government organisations, five start-up founders, one venture capital firm and one university.

### **AMIT CHANAN**

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