

## 20. NEW CIVIC BUILDING

<b>Officer responsible:</b>	Chief Executive
<b>Author:</b>	Tony Marrayatt

### PURPOSE OF REPORT

1. The purpose of this report is to update the Council on the current position and request consideration/approval of changes to the current development contract entered into with Tuam 2 Ltd for development of the new Civic Offices.
2. There are three separate issues that require consideration. These being:
  - (i) Tenant variations
  - (ii) Increase in floor space
  - (iii) Air-conditioning/heating options

### EXECUTIVE SUMMARY

3. At a meeting held 11 October 2007 the Council:
  - Confirmed that Tuam 2 Ltd would design and construct the new civic building.
  - Agreed to enter into a lease from Tuam 2 Ltd of the new civic building for an initial term of 24 years each, at a rent at commencement date of \$7.5m per annum plus GST, with rent reviews at three yearly intervals, to be a full net lease in a form to be finalised and executed by the Chief Executive.
4. The proposal accepted by the Council was based on a brief developed during 2004 and signed off by the Council in 2005.
5. Over the period from 2004 when the brief was established and early 2008 when the brief has been developed into preliminary designs, a number of technical and business changes have occurred.

### Tenant Variations

6. In finalising the preliminary design a number of variations are proposed to the original design. A summary of these proposed variations is attached as Appendix 1. The net cost of these variations is a reduction in the contract price of \$892,000. It should be noted that whilst there is a reduction in the contract price that the Council will incur a cost of \$400,000 for voice equipment in its fit-out costs.

### Increase in Floor Space

7. The baseline for staff numbers to be accommodated in the new civic building used during the site selection process was 1000.
8. The current number of staff/contractors allowed for in the 2008/09 Annual Plan and accommodated in either the Tuam Street building, DMC House in Colombo Street, Lichfield Street or the Parking Building in Tuam Street total 1116.
9. We requested that the architects look at options to increase the usable floor space in the new civic building to see if it was possible to accommodate all staff who would ideally be located in the new building.

10. The proposal that has been prepared for the Council's consideration is to:
  - (i) build partial mezzanine floors on three levels (two to five). This would increase the net internal area by 347m<sup>2</sup> per (Appendix 2 shows a proposed floor layout incorporating two mezzanines, Appendix 3 shows what will be placed under these mezzanines). The proposed mezzanines are good usable space and would be serviced by both lifts and stairs.
  - (ii) extend the glass addition on the north wall by a further five metres over levels two to six. This increases the net internal area by 370m<sup>2</sup> per floor.
11. The total increase in floor space of 3266m<sup>2</sup> would accommodate 1200 staff. Whilst this number is greater than our current requirements, we felt it was appropriate to maximise any additional space constructed, as the cheapest time to undertake the work is as part of the building re-development.
12. The current civic building proposal has a net internal area of 18,296m<sup>2</sup>. The agreed contract rental for this space at \$404.47 per square metre is \$7,400,160. (There is also rental for on-site car parking of \$99,840 which takes the contract rental to \$7,500,000.)
13. Tuam 2 Ltd have estimated the cost of constructing the 3,266m<sup>2</sup> additional floor space at \$9,045,072. This estimate has been peer reviewed by Quantity Surveyors employed by the Council and they have advised that the estimates are appropriate.
14. What has been proposed by Tuam 2 Ltd is that:
  - (i) tenant variations of \$892,000 be deducted off the additional cost of \$9,045,072 giving a net cost of \$8,153,072.
  - (ii) the net additional cost be met by Tuam 2 Ltd (we considered the option of the Council funding this variation directly, but as the addition formed an integral part of the building it was felt that the cost and ownership lay properly with Tuam 2 Ltd).
  - (iii) that the Council pay a further \$733,776 per annum in rental for the extra 3,266m<sup>2</sup> floor area created.
15. It is felt that the proposal by Tuam 2 Ltd is very fair and should be accepted by the Council. The impact of their offer is to reduce the rental for the total net internal area from \$404.47 per square metre to \$377.00 per square metre.
16. The Council does not have to increase the net internal area at the new civic building as some staff could be located in other buildings. Obviously, my personal preference would be to have all staff located in the CBD (other than community facilities) accommodated in the one building.
17. The extra rental payable of \$733,776 can be offset by rental/operating savings of \$513,000 that would be made if the floor areas were extended. These rental/operating savings relate to DMC House in Colombo Street, which currently houses the Capital Programme Group and the training room in Hereford Street.
18. Whilst there is still a gap in the net rental payable of \$260,776, I remind the Council that the agreed rental payable for the original civic building floor plate of \$7,500,00 was \$370,000 less than the estimated rental included in the 2006-16 LTCCP.
19. It is recommended that the Council request Tuam 2 Ltd extend the net internal area at the new civic building. The reasons for this recommendation being:
  - (i) It enables all staff currently employed by the Council located in the CBD, not at community facilities (i.e. libraries, pools) to be located in the one building.
  - (ii) The combination of the increase in the net internal area and tenant variations results in a reduction in rental from \$404.47 per square metre to \$377. 00 per square metre.
  - (iii) The total rental payable is less than the amount incorporated in the 2006-16 LTCCP plus current budget provision for rental payable to third parties that would no longer be payable.
  - (iv) It maximises the usable footplate and improves the quality of a building which, through Civic Building Ltd, is 50% owned by the Council.

20. Requesting scope changes has resulted in a delay to the construction programme. The new completion date for the redevelopment (including the scope changes) is now 10 July 2010.
21. If the Council accepted this recommendation it would be required to borrow half the net cost of providing the additional floor space of \$4,076,536 and advance these funds to Civic Building Ltd.

#### **Air-Conditioning Options**

22. The air-conditioning plant solution originally proposed for the new Civic Building is based around LPG boilers for heating and electric chillers for cooling. This is the standard approach for office buildings. LPG and electricity requirements would be met by external providers.
23. The Council, however, owns a renewable energy source, being biogas from the Burwood landfill and the wastewater treatment plant and can therefore consider other options relating to the provision of air-conditioning for the new Civic Building.
24. Attached as Appendix 4 is a detailed report around alternatives to conventional air-conditioning and heating options for the new civic building. I commend Leonid Itskovich and Chris Kerr for initiating the investigation into alternative methods of providing air-conditioning and heating requirements for the new civic building.
25. We are recommending that the Council install a Tri-generation plant at the new civic building, utilising biogas piped from the wastewater treatment plant. This would meet all of the building's heating and cooling requirements plus most of the building's electricity requirements. It would also meet the heating requirements of the Art Gallery.
26. The capital cost to Council of installing a tri-generation plant would be \$3,319,000. Our estimates of energy savings derived from the installation of a Tri-generation plant would result in the capital and interest charges being paid back within three years five months, and thereafter an annual energy saving to the Council of \$1.3 million per annum.

#### **STAFF RECOMMENDATION**

It is recommended to the Council:

- (a) That the report be received.
- (b) That the Council approve the tenant variations to the original construction contract totalling \$892,000 as listed in Appendix 1.
- (c) That the Council accept the proposal from Tuam 2 Ltd to create 3,266m<sup>2</sup> additional floor area at the new civic building.
- (d) That the Council agree to the rental for the new civic building increasing by \$733,776 to \$8,233,776 plus GST as a result of both the provision of additional floor area and a credit for tenant variations to the original contract.
- (e) That the Council borrow \$4,076,536 on the usual terms and conditions available to the council in respect of external borrowing, in accordance with the Liability Management Policy.
- (f) That the Council advance \$4,076,536 to Civic Building Limited on terms which match, as far as practicable, the same terms on which the Council has borrowed externally, plus a margin to cover administrative costs.
- (g) That the Council authorise the General Manager Corporate Services and the Corporate Finance Manager (jointly) to approve the detailed terms and conditions of the funding transactions.

- (h) That the Council agree:
  - (i) To construct a biogas pipeline from the wastewater treatment plant to the new civic building at an estimated cost of \$1,500,000.
  - (ii) To construct a gas treatment station at the wastewater plant at an estimated cost of \$400,000.
  - (iii) To install a tri-generation plant in the new civic building at an estimated marginal cost of \$3,076,000.
- (i) The cost of the expenditure in recommendation (h) being funded by borrowings with the amount borrowed, plus interest costs, being met by energy savings at both the new civic building and the Art Gallery.
- (j) It be noted that the Council will be applying for a subsidy from EECA to offset the Council's cost relating to Tri-generation.