



Confidential Matter

17.1 Strategic Project Delivery

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CONFIDENTIAL MEETING OF THE PORT PHILLIP CITY COUNCIL

7 SEPTEMBER 2022



17.1

STRATEGIC PROJECT DELIVERY

EXECUTIVE MEMBER: KYLIE BENNETTS, GENERAL MANAGER, CITY GROWTH AND DEVELOPMENT

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1. PURPOSE

- 1.1 To update Councillors on the Port Phillip EcoCentre Redevelopment Project.
- 1.2 To seek Council approval of an initial position with respect to a probable project funding shortfall to enable engagement with the Victorian Government ahead of Council considering the outcome of the tender evaluation process in October 2022.

2. EXECUTIVE SUMMARY

- 2.1 Council has publicly announced a \$5.5 million redevelopment of the EcoCentre will be undertaken, and that Council will contribute \$2.75 million.
- 2.2 Council has a Funding Agreement with the Victorian Government for the EcoCentre Redevelopment, with \$2.75 million provided by DELWP.
- 2.3 Council's tender process for the redevelopment of the Port Phillip EcoCentre has closed and the Tender Evaluation Panel (TEP) is reviewing the bids, including seeking any necessary additional information from bidders. A final report from the TEP is expected in September 2022.
- 2.4 Generally, within the construction industry at the moment there is an environment of cost escalation. The City of Melbourne engaged Slattery Australia Pty Ltd in May 2022 to report on this cost escalation. Slattery Australia found significant price increases occurring across most building materials and supply prices for example shipping costs, joinery and facades, steel, copper, aluminium, material availability, energy, labour costs and insurance.
- 2.5 Consistent with other capital delivery projects, it is anticipated that tenders for the EcoCentre Redevelopment Project will be around 25% over the current project budget. In the event this occurs this would result in a funding shortfall of approximately \$1.2 Million (excluding GST).
- 2.6 This report seeks an initial position from Council in the event of a probable project funding shortfall, to enable engagement with Council's funding partner the Victorian Government. There are two reasons for seeking this position prior to Council considering the outcome of the TEP namely: -
 - 2.6.1 Council will need to move swiftly after considering the TEP outcome if it wishes to maintain prices under the current tender process. In a dynamic pricing environment minimising the opportunity for prices to be revised up by tenderers is critical.
 - 2.6.2 Provides an opportunity for Council to consider the response of its funding partner when considering the outcome of the TEP.
- 2.7 Council engaged two quantity surveyors in May 2022 to inform the project budgets for tender for the EcoCentre Redevelopment Project. The two quantity surveyors indicated a cost between \$4,019,000 to \$4,125,000. In response the budgeted construction contingency was reduced to 13.25% (instead of 20%). The construction budget was increased to \$4,125,000 and construction contingency reduced to \$656,665.



- 2.8 In September 2021, significant value management was conducted to de-scope the EcoCentre Redevelopment Project and identify items to be separately costed as part of the tender process so they could subsequently be descope. Having done the descope exercise there is very limited if any opportunity to further de-scope the project without a redesign and re-working of the project. This would involve additional design works, reduction of ESD initiatives and resubmission to relevant authorities (e.g., Heritage Victoria). This additional work would incur costs, require a new tender process in a market where costs are increasing, elongate project delivery timeframes and would require negotiation with Council's funding partner and the EcoCentre.
- 2.9 Council could explore the potential for the EcoCentre to assist in addressing the probable project funding shortfall, following completion of the tender process. Based on previous discussions with the EcoCentre held at officer level, prior to the tender process, officers believe it would be unlikely the EcoCentre would make a substantial financial contribution to the project. The process of negotiation with the EcoCentre could elongate timeframes, and in a dynamic pricing environment could add risk of further cost escalation to the project. Officers will include further details on this option as part of the report brought back to Council on 19 October 2022.

3. RECOMMENDATION

That Council:

- 3.1 Notes the procurement process for the construction of the Port Phillip EcoCentre building is currently underway.
- 3.2 Notes that consistent with other capital delivery projects, there is a probability the Port Phillip EcoCentre Redevelopment Project may be over budget.
- 3.3 Seeks a commitment from the Victorian Government of a 50% funding contribution toward any funding shortfall of the EcoCentre Redevelopment Project if this eventuates.
- 3.4 Approves Council allocating matching funding of 50% up to \$600,000 of any funding shortfall of the EcoCentre Redevelopment Project if this eventuates.
- 3.5 Requests that the Mayor writes to the relevant State Government Minister advising the Minister of the position of Council and seeking an additional funding commitment as outlined in 3.3.
- 3.6 Notes that at the 19 October 2022 Council meeting, where the TEP report and awarding of contract is scheduled to be considered, that Council also considers the response from the State Government to inform Council decision making on this project.
- 3.7 Notes that only after closure of the tender process, will Council be in a position to hold discussions with the EcoCentre on a potential funding contribution and this option, including benefits and risks, will be provided in the report to Council on 19 October 2022.

4. KEY POINTS/ISSUES

Port Phillip EcoCentre delivery

- 4.1 Council has a long-term partnership with the EcoCentre which includes annual funding for community and school education programs, and a Council Plan commitment to fund the redevelopment.
- 4.2 The Council Plan commitment: Strategic Direction 'Sustainable Port Phillip' is: *'We will partner with the EcoCentre, the Victorian Government and other key stakeholders, to*



deliver programs that support an environmentally aware community and to redevelop the EcoCentre building’.

Redevelopment Project Background

- 4.3 The EcoCentre has been housed in a Council-owned facility located on the edge of the St. Kilda Botanical Gardens since 1999, under a facility agreement with a peppercorn lease. This facility is a repurposed and extended garden keeper’s residence.
- 4.4 Due to constraints on growth, comfort levels, and an assessment that the building was not ‘fit-for-purpose’, Council funded two Business Cases, a Concept Design and an Economic Benefits Analysis (costing approximately \$150,000) to assess options for the EcoCentre. This included an assessment of alternative sites and, in 2017, recommended a redevelopment on the existing site.
- 4.5 In 2019/20 the Council Plan included a commitment to the EcoCentre redevelopment subject to the Victorian or Australian Government providing matched funding of 50 percent of the total project costs.
- 4.6 The proposed redevelopment was costed at \$5.5 million. An advocacy strategy to secure external funding was successful in securing funding from the Victorian Government for \$2.75 million in May 2021.
- 4.7 Initial scoping and development of the project design was supported by Victorian Government funding (from DELWP) of \$182,000. Council contributed \$198,000 to complete detailed design, and to finalise an in-principle Building Permit.
- 4.8 The project progressed through concept design, community consultation, detailed design and final design. Heritage and Building Permits have been obtained.
- 4.9 The EcoCentre building in the St Kilda Botanical Gardens was vacated in March – April 2022 and staff and operations relocated to the Cora Graves Centre on Blessington Street.

Tender

- 4.10 The current tender process commenced with an Expression of Interest process, where shortlisted respondents were invited to tender for the project. Tender documentation was issued on 15 June 2022 and submissions closed on 22 July 2022.
- 4.11 Prior to the tender process, Council undertook value management processes to reduce the project scope and cost as much as possible. Any further reductions to the scope and budget are likely to require a substantial re-scoping and new tender process. This would likely trigger reconsideration of heritage and building permits and would also require engagement with Council’s funding partner and the EcoCentre.
- 4.12 Council engaged two quantity surveyors in May 2022 to inform the project budgets for tender for the EcoCentre Redevelopment Project. The two quantity surveyors indicated a cost between \$4,019,000 to \$4,125,000. In response the budgeted construction contingency was reduced to 13.25% (instead of 20%). The construction budget was increased to \$4,125,000 and construction contingency reduced to \$656,665.
- 4.13 The TEP is currently assessing tenders submitted against: Compliance - having the appropriate registrations, insurance and OHS and Environmental systems and Evaluation Criteria - Capacity/Methodology, Relevant Experience, Corporate Social Responsibility, Quality Management Systems and Price.



- 4.14 Council is due to consider the TEP report and recommendations on 19 October 2022. The Council Report will summarise the process undertaken by the TEP and the scoring that underpins their recommendation. At this point Council will decide whether to accept the TEP recommendation.
- 4.15 While tenders are still being evaluated and deliberations are confidential the cost is unlikely to be within the available project budget. Instead, the tenders are expected to be around 25% over the project budget (approximately \$1.2 Million excluding GST).
- 4.16 Tender probity requirements mean Council is unable to communicate its position on the EcoCentre Redevelopment Project with the Victorian Government before the TEP has finalised its evaluation. The TEP is scheduled to meet on 9 September to finalise its evaluation. The TEP Delegate report is due to be circulated in the week commencing 12 September 2022.
- 4.17 Noting the previous position of Council with respect to the EcoCentre Redevelopment Project has been to work in partnership with the State Government, this report recommends Council seek a 50% State Government contribution to any funding shortfall, should this eventuate. If Council were to resolve in this manner, communication of Council's decision would be made as soon as the TEP finalised its report and probity constraints are lifted. This report also recommends that Council commit to funding the remaining 50% shortfall up to \$600,000, should this eventuate and that this is also communicated to Council's funding partner at the appropriate time.
- 4.18 Council could explore the potential for the EcoCentre to assist in addressing the probable project funding shortfall, following completion of the tender process, due to probity requirements. Based on previous discussions with the EcoCentre held at officer level, prior to the tender process being undertaken, officers believe it would be unlikely the EcoCentre would be in a position to make a substantial financial contribution to the project.

Further options

- 4.19 Reducing the scope of the project is not recommended as it would not meet the needs identified in the Strategic Business Case for EcoCentre Redevelopment. It would require the commencement of a new tender process, estimated to cost Council approximately \$100,000 in project time and resources. This option would also elongate the delivery of the project, would likely require reconsideration of building and heritage permits and would also require engagement with Council's funding partner and the EcoCentre.
- 4.20 Seeking 100% of any funding shortfall from the State is not recommended as it is highly unlikely the State Government will make a 100% contribution given the previous partnership arrangement.

5. CONSULTATION AND STAKEHOLDERS

- 5.1 The Port Phillip community was invited to provide feedback on the redevelopment concept plans in February 2020. Ninety per cent of the 271 respondents supported the concept plan with 81 percent very supportive.
- 5.2 The Heritage Permit process included statutory advertising and consultation.
- 5.3 The EcoCentre is a high-profile community organisation that has strong partnerships with schools and affiliate organisations throughout the City of Port Phillip. For example, more than 150 letters in support of the project were sent to Minister Lily D'Ambrosio. EcoCentre supporters are active each year in Council Plan and budget consultations.



- 5.4 A small number of residents do not support the redevelopment and each year during Council's budget consultations one or two submissions are received opposing the redevelopment. The submissions centre on concerns that the location of the EcoCentre restricts community access to public open space and oppose Council funding community environmental programs.
- 5.5 The EcoCentre has been kept informed of developments in the project through the design phase. The EcoCentre has not been updated on the tender evaluation, other than the TEP is currently undertaking its assessment.

6. LEGAL AND RISK IMPLICATIONS

- 6.1 The existing EcoCentre building is in poor condition. This is an ageing Council asset built in the 1960's with limited ability to provide services to the community.
- 6.2 A building condition audit in 2016/17 identified \$190,000 of works required to maintain the existing building. This would need to be funded by Council.
- 6.3 Two temporary buildings added to the site in 2017/18 to alleviate constraints for EcoCentre operations do not meet accessibility standards or Building Permit or Heritage Permit requirements for permanent structures. If a redevelopment does not proceed, these buildings will need to be removed.

7. FINANCIAL IMPACT

- 7.1 Council committed \$3.2 million over 4 years to the EcoCentre Redevelopment in the Council Plan 2017-2027 (subject to partnership funding).
- 7.2 A Funding Agreement between CoPP and DELWP committing \$2.75 Million from each party was signed in September 2021.
- 7.3 The State Government provided \$182,000 and CoPP \$198,000 for project planning, community consultation, detailed design, authority fees and permits.
- 7.4 The Strategic Business Case included modelling by Essential Economics to quantify the existing economic benefits associated with the EcoCentre and any uplift in these economic benefits driven by the delivery of the project.
- 7.5 The modelling demonstrated that the EcoCentre generates economic benefits through the value of employment, volunteering and educational outputs. In the 2017/18 financial year, this was estimated to total \$3.2 million.
- 7.6 The modelling calculated a positive Benefit Cost Ratio of 1.6 for the project.

8. ENVIRONMENTAL IMPACT

- 8.1 The redevelopment will support the EcoCentre to deliver increased environmental education programs and demonstrate excellent sustainability standards in building design and operation.
- 8.2 The Strategic Business Case for the redevelopment of the EcoCentre demonstrated that doing nothing will result in compromised environmental service delivery. While service levels have been maintained through temporary buildings, expected future service levels will not be met without capital investment due to the constraints of the original building.

9. COMMUNITY IMPACT

- 9.1 The EcoCentre is a community organisation that provides educational and social activities that connect community members through volunteering.



- 9.2 The building also functions as a community hub providing visitor engagement, meeting space and community group administration and support.
- 9.3 Redevelopment of the EcoCentre will increase the level of community support it provides and allow for a greater range of services to be introduced
- 9.4 The new building will increase the EcoCentre's ability to deliver sustainability programs, expand Council's existing services to the community and meet compliance and accessibility requirements.

10. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 10.1 The *Act and Adapt – Sustainable Environment Strategy 2018-28* is a core strategy under the Strategic Direction in the Council Plan 2021-31 of *Sustainable Port Phillip*. This includes a Council Plan commitment that: 'We will partner with the EcoCentre, the Victorian Government and other key stakeholders, to deliver programs that support an environmentally aware community and to redevelop the EcoCentre building'
- 10.2 Action 24 of Council's *Act and Adapt Sustainable Environment Strategy 2018-28* states: *Contribute to the EcoCentre redevelopment (subject to external funding). Continue to invest in EcoCentre programs that support an environmentally aware community.*

11. IMPLEMENTATION STRATEGY

11.1 TIMELINE

- 11.1.1 Advice has been sought to ensure probity of the tender process is not put at risk.
- 11.1.2 Funding partners could be advised of Council's position once the TEP has concluded their scoring and are in a position to make a recommendation. This is scheduled for 9 September.
- 11.1.3 The report from the Tender Evaluation Panel Delegate will be drafted and circulated in the week commencing 12 September.

11.2 COMMUNICATION

- 11.2.1 A Communications Plan has been developed for the EcoCentre Redevelopment Project. The timeline for implementation is dependent on the outcome of the tender process.

12. OFFICER DIRECT OR INDIRECT INTEREST

- 12.1 No officers involved in the preparation of this report have any material or general interest in the matter.

ATTACHMENTS

Nil