

Energy Queensland

Business Case: Maryborough Strategy



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Executive Summary

Energy Queensland (EQL) has two properties in Maryborough, a depot site at Searle Street which is an Operational Hub, and an office building at Adelaide Street in Maryborough CBD. These sites are no longer fit for purpose and the operating costs are well above similar sites within the EQL property portfolio which is projected to be exacerbated over the coming years. EQL proposes to consolidate both Maryborough sites through the redevelopment of the Searle Street depot. This will allow consolidation of office functions into a single office building at the Searle Street depot and the disposal of the Adelaide Street office building. This will achieve significant efficiencies for the region through the provision of fit for purpose operational buildings and a consolidated office facility.

Key Benefits to our customers:

1. Improved staff and community safety by addressing the compliance and safety defects and issues at the Searle Street depot and Adelaide Street office
2. Support the local community within Maryborough by providing opportunities for local trades in various sectors of the building industry during the construction of this project;
3. Significantly improve and enhance the commitment, service and support to our customers by investing in and optimising the Field Delivery presence at the Maryborough depot

1. Objective

Our Strategy is to deliver a safe and efficient, fit-for-purpose and customer-centric property portfolio. The Property Services Group is responsible for optimising and maintaining the combined property portfolio for EQL, consisting of the Energex and Ergon Energy property assets. Our Strategy supports Queensland communities and customers by ensuring EQL has facilities in the right locations to enable the operation of a safe and efficient network.

The key outcomes for the Maryborough Strategy are:

Property Group Guiding Principles	Key Outcome
Safe and compliant	<ul style="list-style-type: none"> • Address the existing compliance and safety defects and issues that have been determined at the Searle Street depot and Adelaide Street office; • Provide a safe and compliant working environment for EQL staff within the Maryborough region.
Commitment to Queensland communities	<ul style="list-style-type: none"> • Significantly improve and enhance the commitment, service and support to our customers by investing in and optimising the Field Delivery presence at the Maryborough depot • Support the local community within Maryborough by providing opportunities for local trades in various sectors of the building industry during the construction of this project;
Fit-for-purpose	<ul style="list-style-type: none"> • Improve operational efficiency at the Searle Street depot by consolidating Field Delivery functions into a new purpose-built facility to support the vital role the team provides within the region. The current facility is not Fit for Purpose.
Asset optimisation	<ul style="list-style-type: none"> • Optimise the Searle Street depot office space, by consolidating 10 separate office and amenity buildings into 1 • Provide an increased element of workplace flexibility for the staff within the Maryborough region; • The release of Adelaide Street as an Energy Queensland asset reducing the property footprint and reducing the operating costs of the business;

Table 1.0 Key outcomes for Maryborough Strategy

2. Background

An AER capex budget allowance of \$38.9mil for the redevelopment of the Searle Street depot at Maryborough was made during the 2015-2020 regulatory period. Due to the changing business environment, this project has been placed in a deferred state.

The Searle Street depot is one of two properties within the Ergon Energy portfolio within Maryborough, at approximately 6.1ha. The site contains twelve buildings with a total 5,322sqm of gross floor area spread between office accommodation, workshops, logistics warehousing, staff training facilities, demountables and storage areas. The Adelaide Street office is the second Maryborough property based within the CBD, which contains three floors at 2,461sqm of office accommodation.

Although the execution of the Maryborough strategy has differed slightly in the past, the intent has remained consistent which is to consolidate all Maryborough based activities to the Searle Street depot and the disposal of the Adelaide Street office building.



Image: Timeline of Maryborough Redevelopment during 2015-2020

During the 2015-2020 period, the AER endorsed \$38.9mil to proceed with the Maryborough development. This was based on a master plan estimate which allowed for the redevelopment of the Searle Street depot and was the result of a revised master-plan design which included the existing workshop and logistics building to remain and be refurbished, the construction of a new office and eco-link with covered walkways, car and fleet parking, hardstand, external storage, pole yard and training facility. This estimate was based on a revised master plan report prepared by Core Architecture on the basis of keeping as much of the existing infrastructure as possible, specifically the main warehouse building and system control building. Although programmed to commence at the beginning of the current period this project was again placed in a 'deferred' state due to budget restraints.

In January 2018 AECOM prepared a Master Plan Order of Cost Estimate for the proposed depot redevelopment which returned a total estimated construction cost of \$49.1mil. This project allowed for the temporary staging on the adjoining site while construction works were completed on the original site. This plan aimed to achieve cost efficiencies from the original estimate by reusing existing facilities where possible and minimising the overall footprint of the proposed depot redevelopment so that the adjoining site could be sold after construction.

The management of a diverse property portfolio requires flexibility to adapt to ever-changing situations, demands and priorities. A natural disaster event struck off the coast of Proserpine in 2017 and significantly impacted the existing Proserpine depot facilities. This required significant investment by Property in terms of resourcing and expenditure. Proserpine, along with the office and operational capital projects within Cairns which have been prioritised due to shifting

business direction and strategy have both contributed to and resulted in the deferral of the Maryborough project until the 2020-25 period.

Although the specifications have changed the strategy of consolidating all Maryborough operations to the one location has always been the same. The adjoining site was originally purchased to facilitate the redevelopment of the Searle Street depot site to enable consolidation with minimal disruptions to BAU. The original masterplan noted the vital role Maryborough played as a minor hub for our Field Delivery crews to service the depots and operations in the surrounding area.

Table 2.0 Assessment of the existing Maryborough Depot

Property Group Guiding Principles	Existing Maryborough Depot
Safe and compliant	▲
Commitment to Queensland communities	▲
Fit-for-purpose	✘
Asset optimisation	✘

Table 2.1 Assessment of the existing Adelaide Street office

Property Group Guiding Principles	Existing Maryborough Office
Safe and compliant	✓
Commitment to Queensland communities	▲
Fit-for-purpose	✘
Asset optimisation	✘

2.1 Maryborough Property Portfolio

2.1.1 Adelaide Street Office Building

The Adelaide Street office facility is the hub for office based staff at Maryborough, with approximately 73 employees accommodated within the building. The building is owned by EQL and is located within the Maryborough town centre and is a three-story office building with limited on-site parking. It was built in 1985 and is the largest office building in Maryborough. The building itself is in an aged condition with a gross floor area of 2,955 sqm with off street parking provided for 21 vehicles. At over 30 years old the building as a whole is aged and many assets within the building have reached useful life. The building as a whole has past its optimum replacement point, and as a result, opex costs will continue to escalate costing the business and our customer. Maintenance and non-maintenance related property costs will continue to increase above CPI into the foreseeable future, while the value of the building continues to depreciate, resulting in an increasingly negative NPV the longer the business retains the asset.

2.1.2 Searle Street Depot

The Searle street depot accommodates approx. 119 staff, primarily field based from the distribution area of the business (approximately 90 in total). The existing Searle Street site is well located and of a generous size for a minor hub. The total site area for Searle Street which includes the adjoining site is 6.14ha. This is easily the largest site in terms of square meters compared to all the other minor hubs within the portfolio and well above the average square meter allocation of all the minor hubs combined (average size is 1.75ha).

2.1.3 Maryborough Property Portfolio – Operational View

The graph below shows the operational expenditure obtained from site expenditure reports for both sites at Maryborough over the past five years, compared to a number of other minor hubs within the Ergon Energy Portfolio. The graph also shows the cumulative total for both the Maryborough depot and office at Adelaide Street.

The individual and cumulative costs for these sites are clearly well above those of other minor hubs within the portfolio. Last financial year (17/18) the Adelaide Street office and Searle Street depot cost the business in operational expenditure in excess of \$850,000. In fact, the average total cost over the past 5 years for each individual site at Maryborough has been approximately \$435,000 per annum, over double the other sites considered which sit at approximately \$186,000 on average per annum. Land tax has recently increased from 2% to 2.5% and the opex costs for the aged Maryborough assets will continue to escalate. The inflated operational costs highlight the benefit to the business and the customer by investing in capital to bring the facility up to a safe, compliant and operationally efficient standard in order to reduce the requirement for opex.

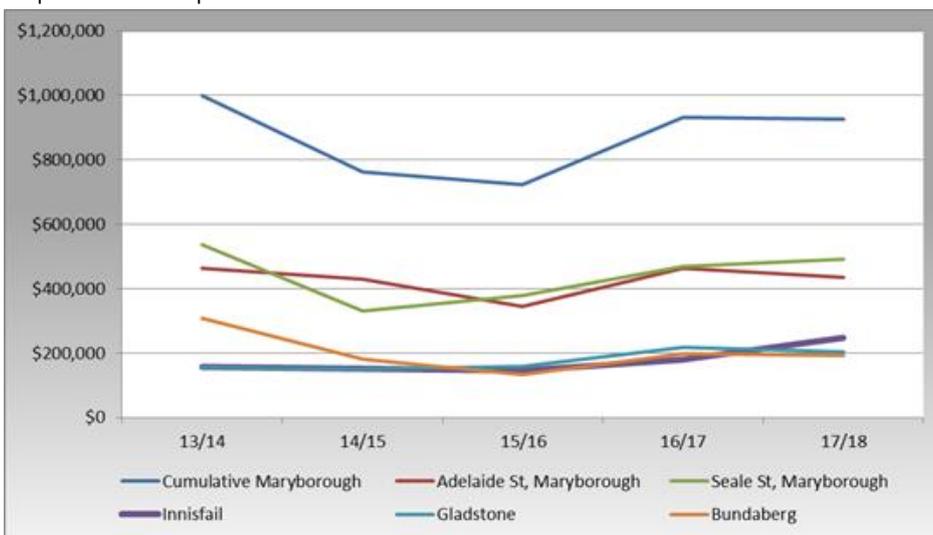


Image: Opex costs for minor hubs and Maryborough portfolio

Further to the inflated operational costs for the Adelaide Street Office and the Searle Street depot is the issue concerning utilisation. Although the Hervey Bay depot is consistently at full capacity and 100% utilised, both sites in Maryborough are 40% underutilised.

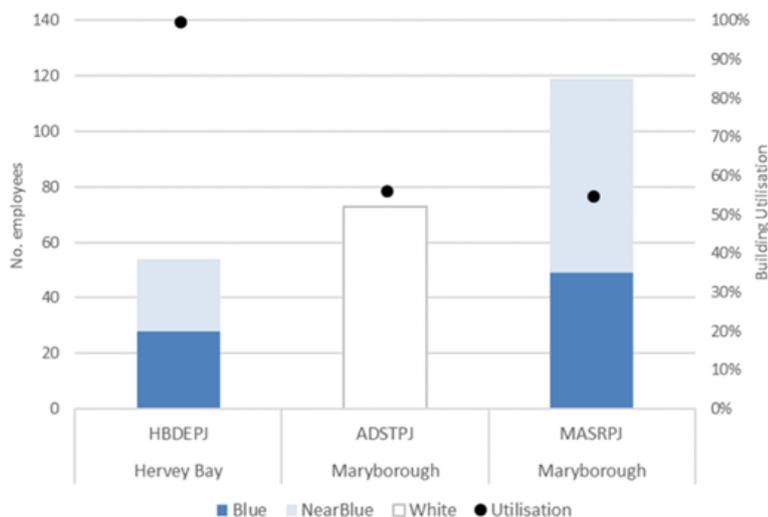


Image: Utilisation of the Fraser Coast property portfolio

3. Problem Statement

Maryborough has been initially identified for capital investment as a result of a Site Assessment and Condition Audit. The outcomes identified many compliance, occupational health and safety and conditional defects and formed the primary drivers for the original Searle Street Redevelopment business case. These defects related to a number of issues across the sites including:

- Fire services, mechanical services, access and egress, general building and site defects.
- Overall the site is aged and run down, enables constrained operations due to poor layout, contains a number of temporary and disjointed buildings across the site
- There are issues with staff access and pedestrian issues across the heavy vehicle circulation and material handling paths which is a safety issue.
- The buildings and offices are dispersed across the site and pedestrians are forced to mix with large fleet vehicles, semi-trailers and forklifts.
- Staff are working across different locations within the site in substandard and temporary accommodation. The buildings are old and run down and do not meet current building and safety standards.
- The site is spread over a large area and there is considerable space and distance between buildings and functional areas of the site.

Overall the site does not operate efficiently from an operational or financial perspective. There are a number of safety issues on the site including inadequate fire life safety systems through the site and buildings, lack of roof fall protection, structural design is not compliant to current standards, a number of buildings contain ACM and require on-going management and assessment. The current Maryborough workforce is fragmented across the Searle Street site and Maryborough as a town, and is less than optimal in terms of productivity and effectiveness. The critical function of the Field Delivery team is particularly disjointed at the Searle Street depot and only covers a small overall footprint. External storage space is minimal, and the multiple buildings the team utilises are of inadequate size. As per the image below, offices and amenities at the Searle Street depot are spread across 10 separate buildings and cover approximately 15,870sqm of the depot. The proposed redevelopment enables the temporary style accommodation to be relinquished through the consolidation of offices and amenities into one consolidated office building.



Image: Disjointed offices and amenities to be disposed of and consolidated into a single office building

Over the years, due to the temporary arrangements that the business has had to put in place to accommodate the Maryborough workforce at the depot, the site has been developed haphazardly and as a result, this has disrupted the fundamental synergies that are essential to the efficient operation of a minor hub. Particularly evident is the lack of core presence and disjointed nature of the facilities for the Field Delivery team which would, and should typically be the most dominant presence at a minor hub. The Field Delivery crew are a vital team and at the forefront in terms of ‘keeping the power on’ for our customers by maintaining our network and therefore it is essential that property facilities are provided and fit-for-purpose to enable this team to operate efficiently and effectively. The facilities provided for our field delivery team require investment to allow synergies and efficiencies in their day to day operations, particularly with regards to an operational shed, storage, laydown area and operational office space. The image below highlights the presence of the Field Delivery team at the Maryborough Depot, and for comparison at the Hervey Bay Depot. Particularly evident is the significant difference between the external storage for the Field Delivery crew between the two sites.

In preparation for the AER 2020-25 Regulatory Submission, a renewed Condition Audit has been undertaken to obtain a more relevant position on the issues affecting the Maryborough sites. The findings for this report further supported the need for investment in a new consolidated office building. The report noted that the existing logistics building and workshop are in structurally sound condition but will require capital investment to address issues of ACM and replace the roof and cladding. The report also indicated that the Training Building (Building 13 – Wesley Training Building) is non-compliant, and beyond economical repair. Further findings of the Audit identified a number of non-compliances across the depot site with regards to both buildings and external yards and storage space. The audit further supports the need for significant capital investment to address the non-compliances at the site.



Image: Maryborough Depot Field Delivery Presence

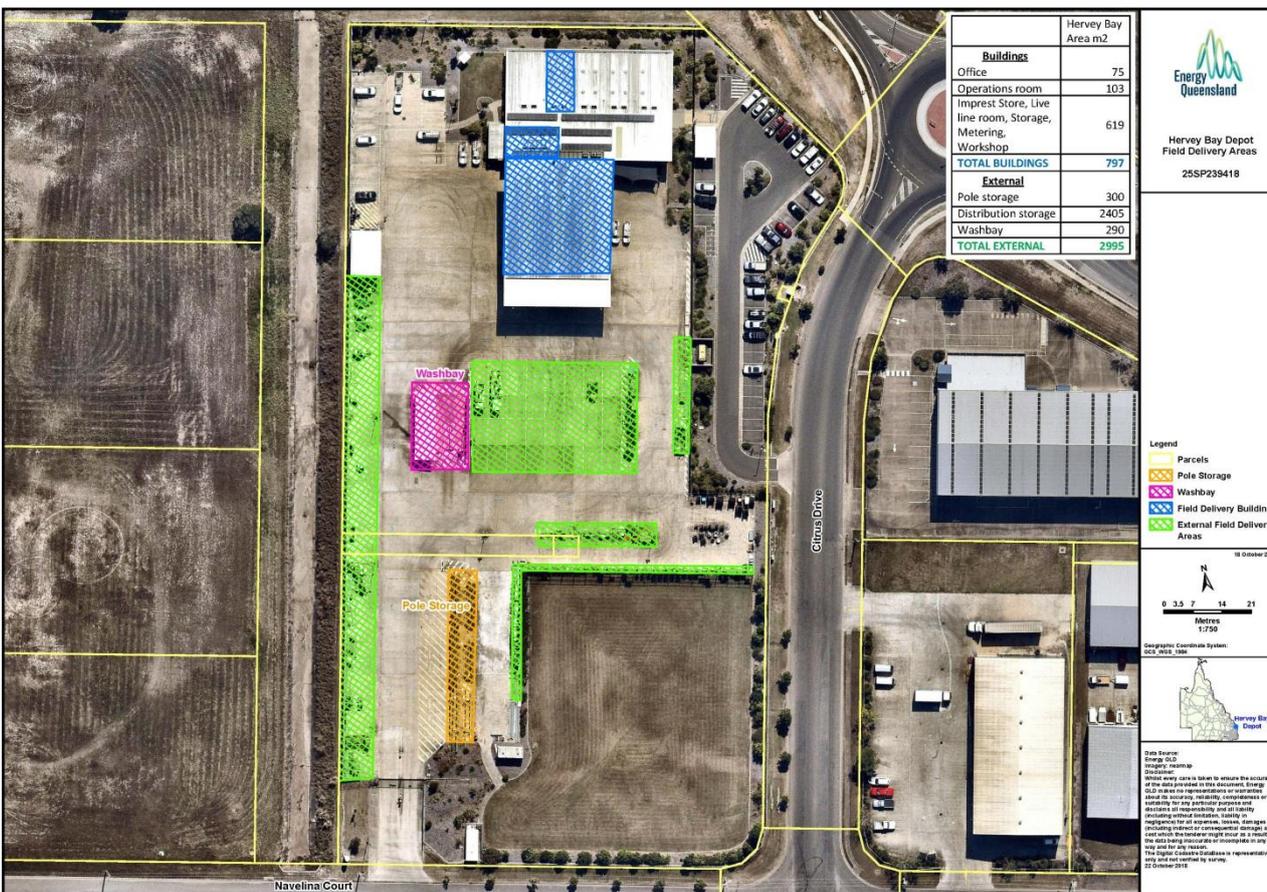


Image: Hervey Bay Depot Field Delivery Presence

4. Proposal

The Maryborough Strategy will allow the Adelaide Street office building to be disposed of and the redevelopment of the Searle Street depot.

The Maryborough strategy focusses on optimising the property portfolio within Maryborough to deliver a customer-centric, fit-for-purpose solution. It will deliver an efficient depot facility at Maryborough to optimise the vital role the depot plays for our Field Delivery team and as a minor hub within the EQL portfolio. The strategy will improve the efficiencies related to the presence of the Field Delivery team while delivering a cost-efficient solution for the business and the customer. Maryborough will be positioned as an efficient minor hub, supporting our field delivery staff to maintain the network for the region.

The proposal for the Searle Street development utilises the existing warehouse and workshop structures while constructing a brand new Field Delivery building on the adjoining site. The proposal also sees the consolidation of the many office and amenities across the site into one brand new office building and the construction of a new training facility at the rear of the existing warehouse. The proposal also reflects capital investment in existing structures, particularly the warehouse and workshop which will require a new roof and cladding.

Given the history associated with this project and the capital expenditure required, it is vital to get the strategy right. The proposed allocation of funding for the Maryborough strategy for the 2020-25 period is \$31.4mil and based off estimates provided by a Quantity Surveyor:

2020-2025 Indicative Strategic Property Plan Budget						
Strategy	2020/21	2021/22	2022/23	2023/24	2024/25	2020-25 Estimate
Maryborough Strategy	\$ 3,105,671	\$ 12,560,000	\$ 15,734,329			\$ 31,400,000

Key benefits:

- Enhanced operational capability and disaster response through efficient layout, traffic flow and workgroup placement;
- Relinquish temporary accommodation (i.e. demountable);
- Reduction in corrective & forced maintenance costs;
- Improved operational capability (Field Delivery, logistics, workshop areas, general workflow throughout the site);
- Extend the useful life of heavily utilised assets to apply downward pressure on opex costs at a major regional centre;
- Improved working environment, employee conditions, staff morale and a reduced carbon footprint;
- Significantly reduce property site corrective and forced maintenance costs;
- Reduced non-maintenance costs;
- Resolution of building non-compliances and standing hazards
- Reduce the risk to EQL of non-compliance to current legislation and building codes.

The key drivers identifying the requirement to address the Maryborough Strategy have been summarised in table 3.1 below

Property Group Guiding Principles	Description
Safe and compliant	There are a number of non-compliances at both the Maryborough office and depot sites that need to be addressed as a matter of urgency. Currently, the Searle Street depot at large is not compliant, and significant capital investment is required. EQL is committed to providing a safe and compliant working environment for staff within the Maryborough region.
Commitment to Queensland communities	Significant capital investment is required at the Maryborough depot which will provide opportunities for local contractors within the building and construction industry. The Maryborough redevelopment will significantly improve and enhance the commitment, service and support to our customers by investing in and optimising the Field Delivery presence at the Maryborough minor Hub.
Fit-for-purpose	The Searle Street depot is not fit-for-purpose. Not only does the site not operate as a minor hub should, but the layout and facilities at the site are also not operationally or financially efficient. The depot layout is not functional with regards to staff or traffic movements and the buildings are disjointed, contributing to increased opex costs and operational inefficiencies.
Asset optimisation	The Maryborough sites are currently not optimised. Opex trends show the financial inefficiencies of the aged and disjointed Maryborough sites. The Maryborough Strategy allows EQL to optimise the two sites through consolidation, disposal of Adelaide Street and the operation of an efficient minor depot.

5. Initial Assessment of Options Considered

The following options to deliver the proposed Maryborough Strategy have been considered:

- Continue business as usual with the minimum possible capital investment
- Redevelop Searle St utilising as many existing structures as possible
- Redevelop the original Searle Street depot site to allow the adjoining site to be disposed of;
- Purchase a greenfield site and construct a new depot; and
- Relocate and centralise the Maryborough depot and office to Hervey Bay.

Base Case – Business as usual - this option assumes continuing with business as usual at the Maryborough office and depot. As an essential minimum level of expenditure, this option requires significant capital investment to address the non-compliances at the site and safety risks and issues. As a minimum, the training building will be required to be demolished, and significant upgrade works will be required across the site and to several building structures. It represents the minimum capital investment (while still significant) at the Maryborough Depot and retaining Adelaide Street within the property portfolio

Scenario 1 – Redevelop Searle St utilising as many existing structures as possible - this option represents the redevelopment of the Searle Street depot including a new office building and field delivery building while retaining the structures of the existing warehouse and workshop. It allows for the various site works required to provide an operational minor hub. It allows for the disposal of Adelaide Street.

Scenario 2 – Redevelop Searle Street - this option allows for the total redevelopment of the Searle Street depot at the original depot site which would allow the adjoining site to eventually be disposed of. It would require temporary

staging on the adjoining site while construction works are underway. It will allow for the disposal of the Adelaide St office facility and adjoining Searle St site once construction works are complete.

Scenario 3 – Greenfield site, construct new minor hub - this option involves the purchase of a Greenfield site within the Maryborough region and the construction of a new minor hub. This option allows for the disposal of the Adelaide Street office facility and the existing two Searle Street depot sites.

Scenario 4 – Relocate and centralise Maryborough depot and office to Hervey Bay - this option involves the disposal of the Adelaide Street office and both adjoining Searle Street depot sites and the purchase of a Greenfield site within Hervey Bay and the construction of a new minor hub facility.

Each of these options was assessed against critical operational criteria to determine the feasible options. The operational assessment identified two feasible options (scenarios 1 and 2) which were then evaluated from a financial perspective to determine the best option available in an NPV (Net Present Value). The primary objectives that the Maryborough Strategy needs to address are:

- Address the safety and non-compliances at the Searle Street Depot
- Decrease operational costs across the Maryborough property portfolio
- Improve asset utilisation within the Maryborough sites
- Consolidate the Maryborough Property Portfolio through the disposal of the Adelaide St Office site
- Provide a fit-for-purpose minor depot facility within Maryborough
- Address current and future growth demands
- Upgrade an aged, disjointed and operationally inefficient depot facility
- Provide a cost-effective solution

Objective	Base Case	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Address the safety and non-compliances at the Searle Street Depot	3	5	5	5	5
Decrease operational costs across the Maryborough property portfolio	2	4	4	2	2
Improves asset utilisation within the Maryborough sites	1	4	5	3	3
Consolidate the Maryborough Property Portfolio through the disposal of the Adelaide St Office.	1	5	5	4	5
Provide a fit-for-purpose minor depot facility within Maryborough	1	4	4	4	3
Address current and future growth demands	1	5	5	4	1
Upgrade an aged, disjointed and operationally inefficient depot facility	2	4	5	5	5
Provide a cost effective solution	3	5	3	1	1
TOTAL	14/40	36/40	36/40	28/40	25/40

Table 4.0: Assessment of options against strategic and operational criteria
Note: Scale of 1 to 5, where 1 = does not meet objective and 5 = fully meets objective

A summary of both the qualitative and quantitative assessments can be found in table 6.0

Option	Description	Assessment	Ranking
Base Case	This option assumes continuing with business as usual at the Maryborough office and depot. It requires significant capital investment at the Maryborough Depot to address non-compliances and safety risks. This option will retain Adelaide Street.	Initial high-level cost estimates indicate approximately \$20mil capital investment is required as a minimum level of expenditure to address the existing non-compliances at the Maryborough depot. It does not address the operational inefficiencies of the depot particularly with regards to office accommodation, field delivery and pedestrian and vehicle traffic. It sees the already inflated opex costs within Maryborough continue to escalate. Under this option the Searle and Adelaide Street sites will continue to age, driving operational inefficiencies & costs.	The base case does not address the identified operational objectives and is not a cost-effective outcome for the business and is therefore not considered a viable solution.
Scenario 1 - Redevelop Searle St utilising as many existing structures as possible, exit Adelaide Street	This option represents the redevelopment of the Searle Street depot including a new office and field delivery buildings while retaining the structures of the existing warehouse and workshop. It allows for the various site works required to address the traffic and pedestrian issues of the site. It addresses the non-compliances of the site and safety issues. It allows for the disposal of Adelaide Street.	Scenario 1 allows for all non-compliances and operational inefficiencies at the Maryborough depot to be addressed. It delivers reduced opex costs across the Maryborough portfolio. It achieves significant efficiencies for the Maryborough region through the construction of a Field Delivery building and a consolidated office building. It also provides a fit-for-purpose property solution with the Maryborough depot performing and operating as an efficient minor hub.	Scenario 1 is the preferred option and was identified as the most cost-efficient option for the business.
Scenario 2 - Redevelop Searle St, dispose of adjoining Searle Street site and Adelaide Street office	This option reflects the redevelopment of the Maryborough Depot at the original Searle Street site. It includes temporary staging of a new depot on the adjoining site which will be disposed of when construction is complete. It includes various construction and site works required to provide an operational minor hub. It allows for the disposal of Adelaide Street.	Scenario 2 allows for all non-compliances and operational inefficiencies at the Maryborough depot to be addressed. It allows the depot to operate efficiently by addressing concerns around pedestrian and vehicle traffic. The temporary staging on the adjoining site allows for the adjoining site to be sold once construction is complete and also for minimal disruptions to BAU during construction. However, this option requires significant capital investment and does not provide a	Scenario 2 is not the preferred option. The option scored highly against the key operational criteria however was identified as the second preferred option as a result of the NPV analysis.

		fit-for-purpose solution, nor provide a cost-effective solution due to the inflated level of capital investment required.	
Scenario 3 - Purchase a greenfield site within Maryborough and construct a new depot	This option involves the purchase of a Greenfield site within the Maryborough region and the construction of a new minor hub. This option allows for the disposal of the Adelaide Street office facility and the existing two Searle Street depot sites.	Although this option allows for a fit-for-purpose minor hub within Maryborough, it involves the purchase of a greenfield site. Since the Searle Street site/s are both of adequate size and in a good location this option does not provide a cost-effective solution due to the additional capital investment required to purchase a new site and the slow property market within Maryborough which would result in a poor outcome for the business with regards to the sale of the two Searle Street sites.	Scenario 3 does not address the identified operational objectives and is not considered a viable solution.
Scenario 4 - Relocate and centralise the Maryborough depot and office to Hervey Bay.	Scenario 4 involves the disposal of the Adelaide Street office and the two Searle Street depot sites and the purchase of a Greenfield site within Hervey Bay.	This option involves the purchase of additional land in Hervey Bay to accommodate and transfer the office and field-based operations from Maryborough. This option is not cost effective as significant expenditure will need to be invested to commit to a renewed strategy in the Fraser Coast region. Furthermore, this option would attract a high level of political resistance, and require significant change management.	Scenario 4 does not address the identified operational objectives and is not considered a viable solution.

Scenarios 1 and 2 meet all or most objectives and have been evaluated in an NPV as well as the base case as these options will best meet the requirements of the Maryborough Strategy. Scenarios 3 and 4 will not be subject to further financial analysis as they fail to meet all of the critical operational criteria.

6. Detailed NPV Assessment

An NPV assessment was conducted against the base case and scenarios 1 and 2 to provide a financial comparison for the preferred options to address the Maryborough Strategy. The analysis provides the cost comparisons between the three proposals and is based off estimates provided by a Quantity Surveyor for scenarios 1 and 2. For the purpose of this analysis, the risk assessment has been covered only within this business case rather than the NPV template to ensure a property-specific risk assessment. Dollars are expressed in \$Real 2017/18. The table below outlines the individual cost impacts of the preferred options and identifies that over the NPV model period that scenario 1 requires a capital investment of \$32.645 million and produces the most favourable outcome providing a cost saving benefit of approximately \$16.16 million over the less favourable scenario 2 (refer Table 5.0 below). The Direct Benefits relate to the sale of land. Note that scenario 1 also reflects expected expenditure within the current regulatory period of \$1.245 million which has been budgeted for within the 19/20 financial year and represents essential compliance driven capital expenditure.

\$ Millions	BASE CASE	Scenario 1	Scenario 2
Capex	(20.00)	(32.65)	(49.10)
Opex	(25.22)	(10.66)	(10.66)
Direct Benefits	0.00	1.10	1.40
Commercial NPV	(45.22)	(42.20)	(58.36)
<i>Ranking</i>	2	1	3

Table 5.0: NPV summary on two preferred options
 NPV reflects \$Real over a 20 year period

7. Recommendation

Financial and operational assessments and analysis have revealed that scenario 1 is the most beneficial outcome for EQL to proceed with to address the requirements of the Maryborough Strategy. This option is the most prudent and provides the best result for the business from both an operational and financial perspective. It addresses the safety and compliance defects present at the Searle Street depot while providing a cost-effective solution for the business and our customer.