

# Energy Queensland

## Business Case: Brisbane Office Accommodation Strategy



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# Executive Summary

Energy Queensland (EQL) currently holds several leased office accommodation properties within the Brisbane CBD which contributes to a significant portion of the overall Property operational expenditure budget. The Brisbane Office Accommodation Strategy proposes a 5-year lease extension at Newstead which is the primary location for Brisbane office-based employees. This option will allow the consolidation of Ann Street employees to the Newstead Office and the exiting of a leased office at Nundah in 2027. The strategy proposes a staged approach to securing a new fit-for-purpose consolidated office building with the flexibility to scale up and down as staff levels fluctuate which is to be completed within the 2025-30 regulatory period.

Key benefits to our customers:

- Reduce overall lease costs (EQL has existing long term leases and lease options where we believe we can test the market to find cheaper options) to put downward pressure on customer costs;
- Reduction in operational and maintenance costs across the Brisbane leased office accommodation properties;
- Flexibility to scale up and scale down to meet the ongoing changing EQL workforce to ensure value for money.

## 1. Objective

The Brisbane Office Accommodation Strategy for 2020-25 aims to achieve efficiencies within the Brisbane CBD office portfolio through consolidation.

Within the 2020-25 regulatory period, this strategy aims to achieve several strategic objectives for EQL including a consolidated, cost-efficient and customer-centric Brisbane Office portfolio at the Newstead office. The long term aim of the Brisbane office accommodation strategy is to establish a new, centralised office facility to accommodate Brisbane CBD based EQL staff which Property intends to implement across the 2025-2030 regulatory period in order to minimise the cost impact to the customer. To achieve the objectives of the long term strategy EQL will need to secure efficient long-term capability in our Brisbane CBD office space to enable the exiting of the lease for the Newstead office building.

The key drivers for the future proposed new Brisbane CBD office building are that it:

- Supports the strategy of consolidating CBD office buildings to reduce the leased property portfolio;
- Provides a fit for purpose facility with security of tenure;
- Allows for a flexible workspace with the ability to scale up or down to adapt to the ever-changing work environment and staff numbers;
- Operates as a fully optimised asset with regards to square meter allocation.

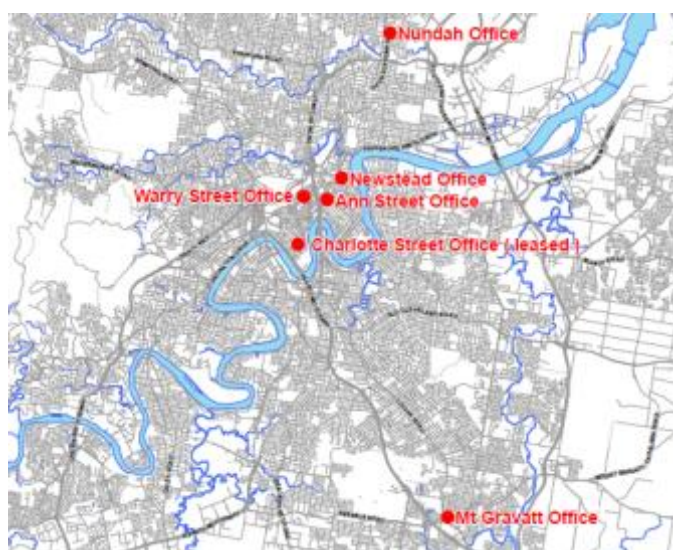
The Brisbane CBD accommodates the largest concentration of staff within the EQL workforce with approximately 2000 staff accommodated across several office properties. While Brisbane Offices are relatively new and are safe and compliant, the portfolio is not yet optimised, which has been identified in the preliminary analysis. Given that our Brisbane direct lease costs are currently around \$26M of an approximately \$80M+ OPEX budget for property, it is vital to get the strategy right.

The following table provides an assessment of the current state of the Brisbane Office Accommodation portfolio against the Property Group Guiding Principles.

Property Group Guiding Principles	Existing Brisbane Office Accommodation
Safe and compliant	✓
Commitment to Queensland communities	✓
Fit-for-purpose	⚠
Asset optimisation	✗

## 2. Background

EQL currently holds 6 properties within its office accommodation portfolio for the inner Brisbane area. The Newstead office currently accommodates the greatest number of EQL staff at around 1,500 employees. Employees are also accommodated at a number of other leased properties across Brisbane including Ann Street, Fortitude Valley; Sandgate Road, Nundah; and Sanders St, Upper Mt Gravatt (although there are plans in place to exit the Upper Mt Gravatt lease in the 2<sup>nd</sup> year of the 2020-25 regulatory period). Newstead, Fortitude Valley and Nundah have approximately 1940 EQL staff accommodated across the three properties. Currently, there are approximately 1,500 at Newstead, 190 at Fortitude Valley and 250 project staff at Nundah.



**Image: Current office accommodation portfolio inner Brisbane**

Since the merging of Ergon Energy and Energex in 2016, EQL has already achieved efficiencies across the leased office portfolio within inner Brisbane. One leased site has been disposed of, and overall there has been a reduction in the net lettable area and additionally there are a number of sub-leases in place at locations where it is possible to do so with excess space.

	At Merger	Existing	End of 2019-20
<b>Total Properties</b>	7	6	3
<b>Total Levels</b>	25	23	15
<b>Net Lettable Area</b>	53,357	50,631	41,974

**Table: EQL Brisbane Office Accommodation current view**

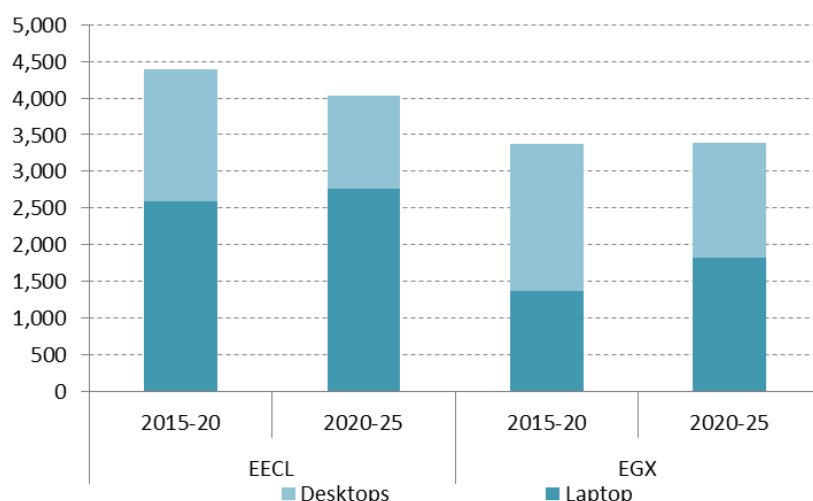
Despite the efficiencies in place, the Brisbane Office accommodation portfolio can be made more efficient in both the short term and long term. Despite the Newstead office building being able to accommodate 1800 staff with a different layout, the building is highly inflexible and inefficient.

The Nundah office was originally designed and constructed to cater for office based staff in a location outside the CBD fringe. As a result of a purpose built and fit-out facility, the lease costs are inflated relative to other lease options within the area. Furthermore, the workforce based at this premises has shifted elsewhere, with the site now being the office for temporary and permanent staff working on major projects. The lease at the Nundah office is due to expire in 2027, and the major project that this office building accommodates is expected to be completed prior to the expiry of the lease. In order to reduce the Brisbane office CBD footprint, Property intends to work with the project team to understand their needs in terms of office accommodation. If significant numbers of staff are going to be required to be accommodated on project work post the lease expiry at Nundah in 2027, Property will seek alternate B grade accommodation outside the CBD fringe with the lease costs allocated to the project in order to reduce lease costs to Property and the CBD office footprint.

The Brisbane Office Accommodation strategy represents key outcomes to be achieved across the current regulatory period as well as the 2020-25 and 2025-30 regulatory periods. Property has identified that a staged approach and commitment represents the most cost-effective and best possible outcome for the customer and the business. A staged approach allows the investment to be made across several regulatory periods whilst also providing both a short and long-term and cost-effective solution for the business.

The Brisbane Office Accommodation strategy seeks to invest capital expenditure to progress the consolidation of office accommodation within the Brisbane CBD and where possible disperse staff out of the CBD to depots with the aim of achieving a reduced CBD office footprint. To reduce the cost impact to the customer, minimise disruption to BAU, and to align with current lease periods Property proposes a staged investment approach across the 2020-25 and 2025-30 regulatory periods to exit the leases at Ann Street within the 2020-25 period, and Newstead within the 2025-30 period.

The strategy also aligns to workplace flexibility trends and going forward the majority of EQL staff will have mobile phones and laptops and will be significantly more mobile than previous workforces. This gives staff the flexibility to work from multiple locations and from home where possible. The Brisbane Office Accommodation strategy enables and supports the modern workforce and EQL's commitment to workforce flexibility.



**Graph: Supporting Workplace Flexibility into the future – IT Assets**

### Key Outcomes for Brisbane Office Accommodation Strategy 2017-20

- To further consolidate the Energex and Ergon Energy property portfolios within the South East region to deliver savings and performance efficiencies as a result of a merged property portfolio;
- To reduce the current leased office accommodation portfolio within the inner Brisbane area by handing back a number of leases including Mt Gravatt and Charlotte Street, as well as selling the Warry Street Office;
- Realising operational efficiencies in relation to staff locations by accommodating regulated staff at Newstead, project staff at Nundah and unregulated staff at Ann Street;
- Continue to focus on achieving a reduced Brisbane CBD office footprint and take advantage of merger efficiencies and opportunities with a continued focus on exiting leases and sub-leasing wherever possible (e.g level 8, Ann Street);
- Continue to identify opportunities to improve the efficiency of the utilisation of floor space at the Newstead office.

Within the current regulatory period, EQL will have significantly reduced the cost of office space to the customer and will continue to implement initiatives and strategies in order to achieve further efficiencies and savings across future periods.

### Key Outcomes for Brisbane Office Accommodation Strategy 2020-25

- To progress with further consolidating the Energex and Ergon Energy Property portfolios to deliver savings and achieve performance efficiencies by exiting the Ann Street lease in 2023;
- To progress the consolidation of the Brisbane CBD office accommodation portfolio to contribute to providing a long-term, flexible and cost-efficient office facility
- Invest capital expenditure at the Newstead office to enable the consolidation of Ann Street and Newstead in order to accommodate unregulated staff at Newstead;
- Continue to implement initiatives to reduce ongoing and long term Opex costs at the multiple leased office accommodation locations;
- Enable and support workplace flexibility for employees and EQL through promoting options for staff to work at existing workspaces at depots closer to their homes as opposed to commuting to the Brisbane CBD and promoting working from home options wherever possible. The workforce is continuing to become more mobile with increasing numbers of staff having mobile phones and laptops. This will provide EQL with the opportunity to reduce our CBD footprint and secure a flexible leased CBD office location with the ability to scale up and down as staff numbers inflate and reduce.

### Key Outcomes for Brisbane Office Accommodation Strategy 2025-30

- Secure a consolidated and flexible leased property within the Brisbane CBD to accommodate EQL staff at a single location;
- Exit surplus leased office facilities within the Brisbane CBD and relocate staff to a consolidated, flexible CBD location;
- Provide a flexible CBD leased office outcome for the business that enables the ability to scale up and down to achieve asset optimisation;
- If additional office space is required for Projects, Property will seek additional B grade accommodation with the costs to be allocated to the project;
- Reduce ongoing and long term Opex costs at multiple leased office accommodation locations;
- Provide workplace flexibility for employees and EQL with the ability to scale up and down with leased office space with a particular focus on fitting existing staff into depots to reduce our CBD footprint.

The key drivers for the Brisbane Office Accommodation Strategy include:

- Continuing to physically co-locate and consolidate teams from merged business entities;
- New regulatory guidelines requiring ring-fencing separation;
- The ongoing need to accommodate project teams and adjust to the ever-changing requirements of the workforce;
- Efficient floor plates with an appropriate allocation per employee of sqm and number of collaboration spaces;
- Achieve business efficiencies through a fit-for-purpose office accommodation solution.

## 3. Problem Statement

There are a number of limitations with the Newstead premises which have also become drivers in the Brisbane Office Accommodation Strategy. The Newstead office is sub-optimal and inefficient in terms of the total square metre allocation



per employee. The layout of the building is inefficient covering a large expanse of area with a large atrium dominating the core of the building. The generous square meter allocation results in an under-utilised asset that is not operating effectively from a cost or operational perspective. This is due to both the overall design of the office space as well as the existing seating and desk arrangements in place. The design of the office also means that subleasing surplus office space is very challenging and costly to the business and the site is not flexible in its current state in this regard to scale up or down to effectively accommodate the changing workforce. The office was initially designed to cater for the Energex workforce when the lease commenced in 2010 and in its current state doesn't allow for an efficient and flexible space for the merged Energex and Ergon Energy workforce, ring-fencing separation or the current and future requirements of the EQL workforce. The key limitations of the Newstead premises include:

- physically co-locating teams from separate merged business entities;
- new regulatory guidelines requiring ring-fencing separation;
- inefficient floor plates with a high square metre allocation per employee and limited collaboration spaces;
- building security concerns; and
- continued effort to improve business efficiency.

The business has continuously invested escalating capital expenditure in the Newstead office building over the past 3 years. This investment represents a continued commitment and requirement to accommodate the flexible needs of different workgroups within the business. It is expected that this level of investment will continue to escalate over the future regulatory periods given the inflexible nature of the Newstead office facility.

Property Services has identified numerous alternative scenarios to mitigate and improve the current Newstead office environment including relocating all staff from Ann St into Newstead at the expiry of the Ann Street lease in 2023 which would necessitate refitting the building and capital investment to accommodate a higher employee density and comply with the ring-fencing requirements in order to accommodate unregulated staff.

The following table provides a high-level assessment of the current Brisbane office portfolio against each of the Property Group Guiding Principles:

Property Group Guiding Principles	What does this mean?
Safe and compliant	All existing office space is safe and compliant with building legislation in their current state. However, to accommodate the unregulated staff from Ann Street at Newstead at the expiry of the lease in 2023 capital investment will be required in order to meet ring-fencing requirements. Looking forward to 2025-30, EQL has a need to have offices which can be easily and cheaply scaled up and down to comply with ring-fencing requirements and staffing levels. This means that our offices ultimately need to have smaller floor plates and be easily separable.
Commitment to Queensland communities	The existing offices are well located in order to service the Brisbane region however there are opportunities to achieve cost efficiencies which will result in reductions in capex and opex costs which ultimately benefits our customer. Initiatives to reduce these costs are being implemented across the current, next and 2025-30 periods.
Efficient and fit-for-purpose	The existing offices were fit-for-purpose for their time, but are not fit-for-purpose going forward. We also need to have flexible office space to be able to drive down costs to our customers and be able to sub-lease easily.
Asset optimisation	Brisbane CBD office space is expensive and the existing portfolio is underutilised and inflexible. Changing work patterns of the near future will see very different work environments. EQL staff are largely equipped to be mobile and operate remotely. Going forward with changing ways in which we work, EQL will offer more flexibility to our staff to work from regional depots that are closer to their homes (e.g. existing office space at depots) and home. This will assist in minimising higher cost CBD office space in

	Brisbane.
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## 4. Proposal

The funding allocation for the Brisbane Office Accommodation Strategy will spread the capital investment required across the next two regulatory periods in order to minimise the cost impact to the customer.

The focus of the 2020-25 period is to consolidate the Newstead and Ann Street offices to Newstead at the expiry of the Ann Street lease in 2023. This will enable the Ann Street lease to be relinquished and reduce the Brisbane CBD leased office portfolio to achieve reductions in lease costs as well as operational costs. The NPV analysis further tested additional efficiencies to be gained by consolidating the Brisbane accommodation sites and achieving a reduced Brisbane CBD office footprint. Along with expected savings in lease costs, the NPV result revealed that the business can also expect to see a reduction in overall operational and maintenance costs.

Three options were considered and assessed to address the Brisbane Office Accommodation Strategy. The analysis revealed that the most favourable option for EQL and our customer is to consolidate Ann Street to Newstead within the 2020-25 period.

## 5. Initial Assessment of options considered

Preliminary evaluation has been undertaken on three different options to address the Brisbane Office Accommodation Strategy, as outlined below:

- Base Case:** Assume that we continue to occupy current leases at Newstead and Ann St (Levels 9 – 11). Nundah will be retained until the expiry of the current lease in 2027. If project accommodation is required post the expiry of the lease, Property will seek additional B grade accommodation to be costed to the project;
- Scenario 1:** 5 Year Lease Extension at Newstead: remain at Newstead until 2030 and relocate Ann St employees at the end of the current lease period (2023) to the Newstead office. This option requires capital investment to ensure the Newstead office is fit-for-purpose and able to accommodate unregulated employees from Ann Street. Nundah will be retained until the expiry of the current lease period in 2027.
- Scenario 2:** Seek New Premises: commit to new office premises with accommodation requirements fully delivered and the leased properties at Ann St and Newstead exited. The possible cost savings achievable can best be determined through a market EOI and negotiation with a successful proponent. This option would involve seeking a better located office, at a time when the Brisbane A Grade Office market is depressed, providing the possibility of achieving substantial savings. Nundah will be retained until the expiry of the current lease period in 2027. If project accommodation is required post the expiry of the lease, Property will seek additional B grade accommodation;

Each option was tested against critical operational criteria to identify the feasible options to further test in an NPV analysis. The operational assessment identified two feasible options (scenarios 1 and 2). However, to ensure the most operational and financial option is selected, Property has tested all three options in an NPV analysis to ensure the best option is selected.

The primary objectives to address the needs for this project include that it:

- Supports the strategy of consolidating office buildings to reduce the leased property portfolio;
- Decrease operational costs across the Brisbane CBD office accommodation portfolio;
- Provides a fit for purpose facility with security of tenure;
- Allows for a flexible workspace with the ability to scale up or down to adapt to ever-changing staff numbers;
- Promotes workplace flexibility by allowing staff to work from depots closer to their homes or work from home where possible as opposed to commuting to the Brisbane CBD;
- Operates as a fully optimised asset with regards to square meter allocation;
- Provides a cost-effective solution.



Table 1.0 Summary of options against operational criteria

Objective	Base case	Scenario 1	Scenario 2
Supports the strategy of consolidating office buildings to reduce the leased property portfolio	1	5	5
Decrease operational costs across the Brisbane CBD office accommodation portfolio	2	4	4
Provides a fit for purpose facility with security of tenure	2	3	4
Allows for a flexible workspace with the ability to scale up or down to adapt to ever-changing staff numbers	2	3	4
Promotes workplace flexibility	3	3	4
Operates as a fully optimised asset with regards to square meter allocation	2	3	4
Provides a cost effective solution	3	3	3
<b>TOTAL</b>	<b>15/35</b>	<b>24/35</b>	<b>28/35</b>

Further to the operational criteria, the following table provides a high-level snapshot of how each option rates against the achievement of each of the following criteria:

- **Cultural:** ability to bring teams together and foster EQL culture.
- **Compliance:** level of ring-fencing and security compliance achievable.
- **Flexibility:** workspace ability to adapt with the business as it changes.
- **Financial:** cost savings delivered over the Base Case Scenario.

	Cultural	Compliance	Flexibility	Financial
<b>Base Case</b>	Medium	High	Medium	Medium
<b>Scenario 1</b>	High	High	Medium	High
<b>Scenario 2</b>	High	High	High	High

All options achieve a high on compliance with ring-fencing, because the short term accommodation actions will achieve separation between the regulated and unregulated business units. However, to achieve full flexibility requires an office location with numerous smaller floors. Newstead has large floor levels, and can never be made highly flexible to changing requirements or efficient. Non-financial considerations of potential risks around the different options include:

- **Base Case:** ensures compliance with ring-fencing while enabling Nundah (until lease expiry in 2027) and Level 8 Ann Street sub-leasing, but limitations on future workspace improvements or any additional cost savings. Low change impact on employees.
- **Scenario 1:** lease extension commits EQL to longer Newstead timeframe, with some improvement to the workplace environment provided. Low change impact on employees.

- **Scenario 2:** speculative proposal based on discussions longer timeframe than other options, will take longer to deliver desired improvements. Also potentially considerable staff upheaval in office relocation. However, this option has a lot of opportunities such obtaining a better location closer to transit options, with a modern design set up to cater for the needs of EQL.

A summary of both the qualitative and quantitative assessments can be found below within table 2.0.

Option	Description	Assessment	Ranking
Base Case	This option assumes continuing with the existing lease options at Ann St and Newstead however exiting the Nundah lease in 2027 and if required seeking alternative B grade accommodation to be costed to the project.	The base case ensures compliance with ring-fencing however does not provide a cost efficient solution from an operational perspective due to the costs associated with leasing and maintaining separate office locations. This option does not allow a flexible workplace with the ability to scale up and down and still requires significant capital investment to upgrade the Newstead office to meet the changing needs of the EQL workforce.	This option does not address the identified operational objectives and is not a cost-effective outcome for the business from a capital or operational perspective.
Scenario 1 - lease extension at Newstead, consolidate Ann St staff to Newstead at the expiry of the current lease period (2023)	Scenario 1 assumes a lease extension at Newstead. This option consolidates Ann Street to Newstead at the expiry of the current lease period (2023). This option requires capital investment at Newstead to be able to accommodate unregulated EQL staff at Newstead once the Ann St lease is exited.	This option ensures compliance with ring-fencing requirements by investing at Newstead to cater for unregulated staff. It provides a low level of flexibility due to the previously described limitations of the Newstead office which Property intends to address with a new facility within the 2025-30 period. However, by delaying the relocation to a new consolidated facility EQL anticipates a potential lost opportunity to take advantage of current favourable market conditions.	Scenario 1 is the second most cost-effective outcome for the business and is the preferred option. This is to reduce the cost impact to the customer and the business.
Scenario 2 – New premises (also consolidate Ann St staff to Newstead at the expiry of the current lease period (2023))	This option requires EQL to seek new premises to cater for the Brisbane CBD office-based workforce and the Newstead and Ann St leases to be exited. This option would involve seeking a better-located office, at a time when the Brisbane A Grade Office market is depressed, providing the possibility of achieving substantial savings.	Scenario 2 scores the highest with regards to a high level cultural, compliance, flexibility and financial assessment. This option achieves a centralised Brisbane CBD office location, reduces ongoing operational costs including leases and maintenance and allows a high degree of flexibility to cater for the changing workforce and to scale up or down as EQL staff levels fluctuate.	Scenario 2 address the operational objectives and is the most cost-effective outcome for the business in the long term. Property intends to implement this option within the 2025-30 period.

Considering the above assessments, Property has tested all options in an NPV analysis. This is to ensure that the best possible option is selected to ensure the best property solution for the business and our customer.

## 6. Detailed NPV Assessment

Preliminary NPV analysis has identified that all options deliver significant savings over the base case. 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. While estimates are only preliminary and require further refinement through detailed market investigation and negotiation, approximate costs are shown below.

\$ Millions	BASE CASE	Scenario 1	Scenario 2
Capex	(32.04)	(39.22)	(29.72)
Opex	(707.69)	(677.41)	(656.11)
Direct Benefits	0.00	0.00	0.00
<b>Commercial NPV</b>	<b>(739.73)</b>	<b>(716.63)</b>	<b>(685.83)</b>
<b>Ranking</b>	<b>3</b>	<b>2</b>	<b>1</b>

**Table of NPV Comparison (2017/2018 – 2035/2036)**

**NPV reflects \$Real over a 40 year period**

Costings for Scenario 2 are based off an informal proposal. However, to properly assess the financial implications of scenario 2, an EOI would need to be undertaken.

## 7. Recommendation

Financial and operational assessments and analysis, along with consideration of customer feedback have revealed that scenario 1 is the most beneficial outcome for EQL to proceed with to address the requirements of the Brisbane office accommodation strategy. Consultation with our customers revealed initial concerns with regards to a high level of investment in a new facility within the 2020-25 period. This feedback has been considered and is the primary driving force behind the staged approach across the next two regulatory periods to the Brisbane office accommodation strategy. The proposed investment within the 2020-25 period is reflected below:

	2020-2025 Indicative Strategic Property Plan Budget						2020-25 Estimate
	Strategy	2020/21	2021/22	2022/23	2023/24	2024/25	
<b>EQL Property Strategy</b>	Brisbane Office Accommodation Strategy	\$ 1,103,000	\$ 6,000,000	\$ 1,106,090	\$ 1,000,000	\$ 1,109,273	\$ 10,318,363

The NPV for this option also reflects an expected investment of \$28.8M within the 2025-30 regulatory period.

A summary of the benefits of scenario 1 is presented in table 3.0 below

Benefits	Description
Consolidation	Provide a consolidated office accommodation solution with a reduced footprint for the existing disparate Brisbane CBD office workforce
Financial	Provides a cost-effective outcome for EQL and the customer with regards to both capital and operational expenditure. A centralised site reduces lease costs and maintenance costs across several properties
Fit-for-purpose	The capital investment to accommodate unregulated staff from Ann Street to Newstead will provide a fit-for-purpose office facility for Brisbane CBD staff. The reduced Brisbane leased portfolio will deliver savings to the business and the customer.

Asset Optimisation	Scenario 1 increases asset optimisation at Newstead through the ability to implement an improved square meter allocation per employee.
Cultural	This option presents high culture benefits to the business by co-locating staff currently spread across 2 leased sites at the one location. It enables cultural benefits by having all staff and workgroups at a single location.

Table 3.0 Summary of benefits of the preferred option

Scenario 1 is the most prudent option for the business to pursue. It addresses a number of the limitations of the existing Newstead office and allows a consolidated Brisbane CBD office location. A staged approach to securing new premises and focussing on consolidating Ann Street staff to Newstead within 2020-25 delays the required capital and operational expenditure and allows the business to meet operational and strategic objectives.

## Value to the Customer

### Improved outcomes for Customers

- Reduction in overall lease costs (EQL has existing long term leases and lease options where we believe we can test the market to find cheaper options);
- Reduction in operational and maintenance costs across the Brisbane leased office accommodation properties;

### Risk of doing nothing

- **Costs:** increased operational costs;
- **Inefficiencies:** A disparate office-based workforce within South East Queensland;
- **Inflexibility:** Inability to meet the changing and flexible needs of the changing workforce.