

5.21.6

# Business case 6: Wallsend office Replacement

# Content

1	SUMMARY.....	3
2	CONTEXT.....	5
3	PROJECT NEED .....	6
3.1	Building quality.....	6
3.2	Workforce.....	6
3.3	Inventory and storage .....	7
4	OPTIONS AND ASSESSMENT .....	8
4.1	Assessment process.....	8
4.2	Identifying options to address need.....	8
4.3	Assessment of options.....	9
4.4	Summary of findings .....	11
5	DELIVERY MODEL .....	12
6	METHOD TO FORECAST COSTS.....	13

# 1 SUMMARY

The purpose of this business case is to provide for the establishment of a new Wallsend Office building.

The facility provides accommodation for over 400 personnel and has the second largest concentration of staff within the franchise area. The 2016-19 property strategy proposed the Wallsend Office building be replaced due to end-of-life issues, strategic opportunities and encroachment of residential development. The Ausgrid Property Strategy guides the development and location of the office/depot portfolio and strongly promotes co-locating network and non-network functions at strategic locations. The strategy proposes the development of a replacement facility at another location.

The key drivers for a proposed new Wallsend Office building include that it:

- Must support the corporate strategy of co-locating offices/depots with infrastructure
- Replaces an office that is at the end of its life expectancy (fully depreciated)
- Provides a fit for purpose facility with security of tenure
- Consolidates business unit activities in a location in proximity to existing network facilities
- Is located on a major arterial road network in the area
- Provides for efficient capital recycling of the non-network property Regulated Asset Base
- Meets local resident concerns about the incompatibility of current operations
- Provides future opportunities to develop the site for other Ausgrid activities or external leasing.

Four options were considered to meet our accommodation requirements. The preferred option involves the rebuild of the Wallsend Office either Wallsend or Beresfield Depot (to be determined) at a cost of [REDACTED] (real FY19). This is considered the preferred option because it is the least cost option and also meets all accommodation criteria for this area.

The benefits of this are summarised in the table below.

**Table 1. Summary of benefits of preferred option**

Benefits	Description
Support	Maintains proximity and capacity to support the Newcastle operational area addressing current and future growth demands.
Functionality	Replaces an office that is at the end of its functional life and provides a fit for purpose facility with security of tenure.
Location	Will be located in close proximity of major arterial roads and public transport hubs in the area and away from encroaching residential development.
Consolidation	Consolidation of buildings through the implementation of revised depot typology. Provides opportunity for surplus land.
Capital	Future potential for efficient capital recycling of the Regulated Asset Base Non-Network property portfolio.

A new Wallsend Office building, to be constructed adjacent to a regional depot in the area is the preferred and most prudent option. It addresses the problems with the existing Wallsend

Office site. Refurbishing the buildings at the site will not overcome the problem of residential encroachment, incompatibility of the site within this type of area and the end-of-life issues the site is now experiencing, adding to increasing maintenance and repair costs. It may offer the opportunity for Ausgrid to find another compatible use for the site through leasing the space or ultimately disposing of the site.

This project maintains an upgraded office location in the region supporting the significant ongoing operating and capital expenditure programs, many of which operate across 24 hours a day.

The proposed development of the Wallsend Office building will be delivered via a managing contractor who would engage the required services to deliver the project.

The managing contractor model has been reviewed as part of the current business transformation project and supported as an efficient, commercial contracting model.

## 2 CONTEXT

The existing Ausgrid office accommodation at Wallsend was officially opened in 1985. The site comprises one main building structure divided into three connected Blocks (A, B and C), open vehicle parking and surrounding green spaces. The building houses open plan accommodation, offices, meeting rooms, cafeteria, control room, contact centre, utility areas, basement parking, loading dock and miscellaneous items.

A master plan has been completed to map the relocation of the Wallsend Office staff to an alternate location to confirm functional relationships and the identification and management of infrastructure and planning requirements. This process has been informed by specialist planning and architectural design contractors.

The Ausgrid office at Wallsend is approaching the end of its economic life and is located within a low/medium density residential and public recreation area. As a result of progressive town planning changes, the site is affected by encroaching development. Subsequently, the realisation that strategic opportunities that may be available has been identified in planning studies for the area.

**Figure 1. Wallsend Office Building**



Source: Ausgrid

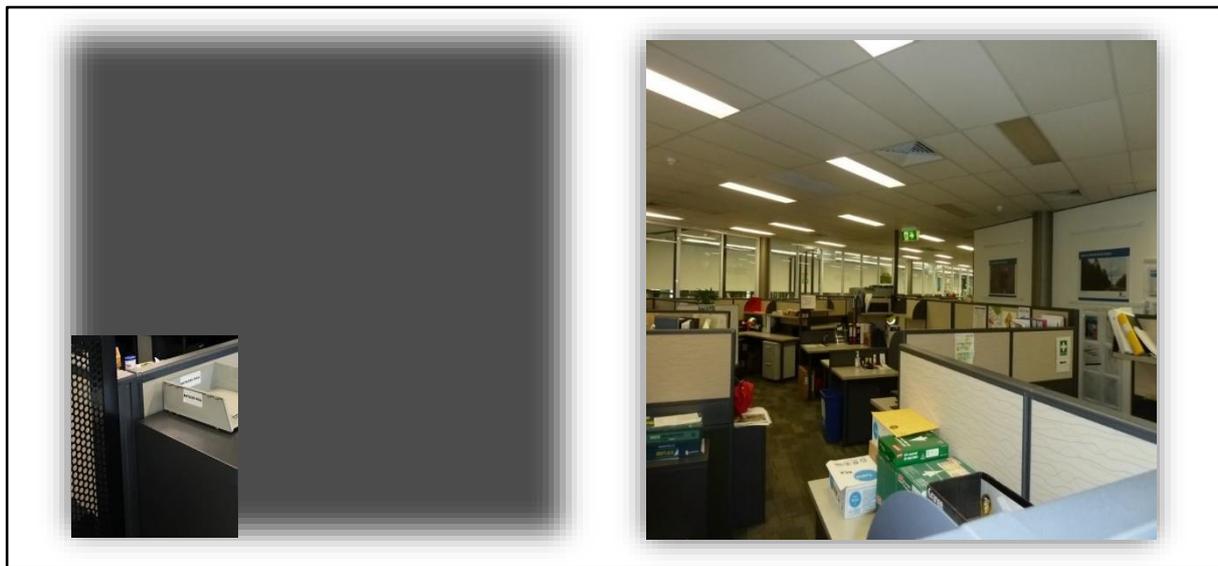
## 3 PROJECT NEED

### 3.1 Building quality

The Wallsend Office facility is over 30 years old and is facing end-of-life issues and accommodation and storage constraints.

The photos below show the ageing and inefficient layout of the office space within the existing Wallsend office. The building is aged and has major mechanical defects now requiring either significant repair or total replacement.

*Figure 2. Inefficient poorly laid out office space*



Source: Ausgrid

Regarding end-of-life failures, the building air conditioning, fire and electrical systems need replacement.

The existing building layout is inefficient covering a large expanse of area with a large open-air carpark. Any new facility will be more compact and generally house staff in a single location or level rather than in separate and disparate wings. Further the site is being encroached upon by expanding residential development in the locality providing an incompatible use for the existing building in relation to neighbouring development. It is proposed to re-develop the facility in a strategic new location, most likely adjoining nearby regional depot facilities at Wallsend or Beresfield.

### 3.2 Workforce

The workforce plan for any proposed office will comprise circa 400 office staff. The workforce plan accounts for employee exits, has been assessed against the capital and maintenance requirements of the area and confirmed by management.

The workforce numbers should be seen within the context that offices are designed to sustain a 50-year life to cater for business changes and climatic events occurring throughout that period.

### **3.3 Inventory and storage**

There would be no inventory impact associated with a new Wallsend office development.

## 4 OPTIONS AND ASSESSMENT

### 4.1 Assessment process

In assessing the preferred option for a new Wallsend office, we identified a range of plausible options, developed assessment criteria relevant to the situation, rated each option by the criteria, undertook a more detailed cost assessment for the two most suitable options and selected the overall best option. This process is discussed in more detail below.

### 4.2 Identifying options to address need

The first step to address the issues with the Wallsend Office is to identify the range of options that could overcome the problems of the current site and ensure suitable accommodation in the Newcastle area.

Four options were considered for the provision of suitable office accommodation in the Newcastle/Hunter area, being:

- Option 1 – Do nothing. This involves no capital expenditure
- Option 2 – Replace the Wallsend Office at a strategically located site at or near an existing regional depot facility. This option provides for the establishment of the new office. Moving to a new site addresses the key issue by residents living near the Wallsend site of incompatibility of operations with the adjoining residential use. Option 2 fully meets the objectives and is therefore considered most viable
- Option 3 – Rebuild the Wallsend Office at the existing site. This option provides for a rebuilding of the Wallsend office to provide for modern collaborative workspaces. However, this option does not mitigate the ongoing issues with the local resident concerns with respect to the incompatibility of operations with the adjoining residential use. Option 3 does not meet the majority of the objectives and is therefore considered not viable
- Option 4 – Refurbish the existing Wallsend Office. This option provides for a refurbishment of the office to provide for modern collaborative workspaces. However, as with Option 3, this option does not mitigate the ongoing issues with the local resident concerns with respect to the incompatibility of operations with the adjoining residential use. Option 4 does not meet the majority of the objectives and is therefore considered not viable.

The next step was to undertake a qualitative assessment of each of the options against a list of operational criteria. The operational criteria are used to decide which of the options are feasible. Only feasible options are considered in a cost effectiveness/net present value calculation.

The primary objectives to address our needs for this project include that is:

- Supports the corporate strategy of co-locating offices/depots with infrastructure
- Replaces an office that is at the end of its life expectancy (fully depreciated)
- Provides a fit for purpose facility with security of tenure
- Consolidates business unit activities in a location adjacent to existing network facilities

- Facilitates the sale of non-network property that has no strategic value
- Is located on a major arterial road network in the area
- Facilitates efficient capital recycling of the non-network property Regulated Asset Base
- Meets local resident concerns about the incompatibility of current operations
- Provides future opportunities to develop the site for other Ausgrid activities or external leasing.

**Table 2. Assessment of options against operational criteria**

Objective	Option 1 DO NOTHING REMAIN AT EXISTING WALLSEND OFFICE	Option 2 REPLACE WALLSEND AT AN ALTERNATE SITE	Option 3 REBUILD WALLSEND AT EXISTING SITE	Option 4 REFURBISH WALLSEND
Compliance with the corporate strategy	1	5	1	1
Replacement of an office that is at the end of its life expectancy	1	5	5	5
Provide a fit for purpose facility with security of tenure	1	5	5	5
Consolidation of business unit activities in a location adjacent to existing network facilities	1	5	1	1
Sale of non-network property that has no strategic value	1	5	1	1
Located on the major arterial road network in the area	5	5	5	5
Provide a cost effective capital solution	1	5	1	5
Meet local resident concerns with respect to incompatibility of current operations	1	5	1	1
Provides future opportunities to develop the site for compatible activities or external leasing	1	5	1	1
<b>TOTAL</b>	<b>13/35</b>	<b>45/45</b>	<b>21/45</b>	<b>27/35</b>

NOTE: Scale of 1 to 5, where 1 = does not meet objective and 5 = fully meets objective

As shown, Options 1, 3 and 4 do not meet the majority of the objectives while Option 2 fully meets the objectives. Option 2 was costed using a master planning process which was conducted by an independent quantity surveyor.

### 4.3 Assessment of options

In this case, replacing Wallsend at a new site meets all the operational requirements. Our assessment of qualitative outcomes is presented in Table 3 below.

**Table 3. Assessment of options**

Description	Assessment	Ranking
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Description	Assessment	Ranking
<p>Option 1 Do nothing.</p>	<p>This option provides for remaining at the existing Wallsend Office and not undertaking any capital works.</p>	<p>A do nothing option will not address the ongoing property end-of-life issues, lack of adequate accommodation and storage space.</p> <p>The existing site cannot accommodate a high performance collaborative workforce of around 300.</p> <p>Further, the buildings at the site do not satisfy the current Building Code of Australia requirements.</p>
<p>Option 2 Rebuild office at an alternate site.</p>	<p>This option provides for the rebuilding of the office at an alternate site.</p> <p>The preliminary cost of the rebuilds set out in the master plan is [REDACTED] (real FY19).</p>	<p>This redevelopment would deal with the property end-of-life issues, accommodation and storage constraints, Building Code of Australia requirements and steadily encroaching residential development.</p> <p>There is also potential for surplus land to be available after the relocation. Any surplus land could be reused or disposed of. Disposal of assets would be netted off the Regulatory Asset Base in the future.</p>
<p>Option 3 Replace office at existing site</p>	<p>This option would involve rebuilding of the office at the existing site.</p>	<p>This option provides for the replacement of the existing office at the existing site. Ausgrid has several more suitable sites for the relocation of the office.</p> <p>The need to re-locate to an existing suitable site would not add to the cost and time in providing an operational solution.</p>

	Description	Assessment	Ranking
Option 4 Refurbish office at existing site.	This option provides for a refurbishment of the office to overcome the property end-of-life deficiencies and Building Code of Australia requirements	The scope of the work would not necessarily overcome the accommodation and storage constraints. This option also does not resolve issues of residential development steadily encroaching on the subject site.  This option would not enable the release of surplus lands.	Option 4 is not preferred.

## 4.4 Summary of findings

Based on the operational review and options analysis, Option 2, being the rebuilding of a new office at a strategic location ideally adjacent to an existing depot, was found to be the most prudent and efficient option to address the identified need.

A summary of the benefits is presented in Table 4 below.

**Table 4. Summary of benefits of preferred option**

Benefits	Description
Support	Maintain proximity and capacity to support the Newcastle operational area addressing current and future growth demands.
Functionality	Replaces an office that is at the end of its functional life and provides a fit for purpose facility with security of tenure.
Location	To be located in close proximity of major arterial roads and public transport hubs in the area.
Consolidation	Consolidation of business unit activities through the implementation of revised office typology being located within proximity of an existing regional depot.
Capital	Future potential for efficient capital recycling of the Regulated Asset Base Non-Network property portfolio.

Option 2 is the most prudent option. It addresses the problems with the existing buildings at the Wallsend Office that cannot be cost effectively overcome by refurbishing the existing office. Rebuilding at a new (existing) site is the most feasible option as this decreases the lifecycle cost and meets other operational objectives.

## 5 DELIVERY MODEL

The project will be contracted to be built by external contractors and will undergo a market tender process to ensure the best value for money.

The redevelopment of Wallsend Office would be delivered via a managing contractor who would engage the required services to deliver the project.

This regulated asset investment would be delivered via a managing contractor who would engage the required subject matter experts to deliver the project. The managing contractor model has been reviewed as part of transformation and supported as an efficient, commercial contracting model. This model has been successfully deployed to deliver Singleton Depot and Ourimbah Depot and is currently delivering Beresfield Depot.

The model provides for early contractor involvement by the managing contractor who is responsible for the management of the design and construction process via a series of milestone hold-points. Subject to satisfactory milestone performance review, the managing contractor receives a management fee to subcontract their design and construction obligations on a fully transparent, competitively tendered, direct cost basis (verified by an independent quantity surveyor) to a guaranteed maximum price contract.

## 6 METHOD TO FORECAST COSTS

The preliminary cost of rebuilding Wallsend Office at an alternate site set out in the master plan is [REDACTED] (real FY19). The costs of Option 2 have been developed as follows:

- Fees – Based on a nominal percentage of the construction costs declared to Council at the time of development application submission
- Professionals – An amount allocated by Ausgrid in the managing contractor tender documents to cover the design aspects of the project. The amount is based on master planner estimates
- Contractors – An amount allocated by Ausgrid in the managing contractor tender documents to cover the construction aspects of the project. The amount is based on master planner estimates and assumes the value engineering component of the proposed delivery model
- FFE - An amount allocated by Ausgrid in the managing contractor tender documents to cover the fittings, fixtures and equipment aspects of the project. The amount is based on master planner estimates
- Ausgrid Services – An amount which includes internal services provided by Ausgrid divisions and in particular by Finance, Field Services, and Business Improvement
- Contingency – An amount allocated proportionally based on industry standards and known risks.

The evolution of the functional brief and master plan will continue to refine the requirements for the Wallsend Office to enable the lodgement of a development application.