

5.21.1

Business case 1: Homebush Depot upgrade

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1 SUMMARY

Homebush Depot is over 50 years old and in a degraded state. The purpose of this business case is to assess the best course of action to meet depot and office accommodation needs in the Sydney South region.

Homebush Depot provides accommodation to Ausgrid staff servicing the Sydney South area. Currently, there are approximately 350 field services and customer service staff operating from Homebush Depot.

The key drivers for the proposed upgrade of Homebush Depot include:

- End-of-life of the buildings at the site
- Constraints in accommodation and storage areas
- Rationalising depot and administrative functions onto one site in line with Ausgrid policy
- Potential for surplus land to be realised after the completion of the works.

Four options were considered to meet our accommodation requirements. The preferred option involves rebuilding the Homebush Depot at the existing site for a cost of [REDACTED] (real FY19). This is considered the preferred option because it is the least cost option and 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	Maintain proximity and capacity to support the Sydney South area addressing current and future growth demands.
Functionality	Replaces depot that is at the end of its functional life and provides a fit for purpose facility with security of tenure.
Location	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 depot typology.
Capital	Future potential for efficient capital recycling of the Regulated Asset Base Non-Network property portfolio.

This project maintains an upgraded field operations service depot facility in the region with significant ongoing operating and capital expenditure programs, many of which operate across 24 hours a day.

The redevelopment of Homebush Depot would 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 and supported as an efficient, commercial contracting model.

2 CONTEXT

Ausgrid's Homebush Depot is located on the corner of Pomeroy Street and Underwood Road, Homebush. The Homebush Depot serves the Sydney South region of Ausgrid's distribution area and is generally considered to be in a good location to support the existing and future growth of the area. The Homebush Depot comprises of various buildings ranging from 45-65 years old and are at their end-of-life.

The current depot site provides accommodation for approximately 172 field operations staff and 178 staff across a variety of other Ausgrid divisions providing customer service, support services and other functions.

The Homebush Depot has several buildings on the site that are used for a range of activities. Activities at the site include truck and equipment storage, office tasks, mechanic and vehicle workshops, oil storage and handling and waste storage. Figure 1 below provides an aerial view of the site.

Figure 1. Aerial view of Homebush Depot



Source: Ausgrid

Homebush is a suburban area within the Sydney South region within proximity to medium density residential, public recreation, environmental conservation and general industrial uses. It has access to major arterial roads and the M4 Freeway which makes it an ideal location for a depot. The Homebush depot site is located in the Strathfield Municipal Council area and is zoned under the Strathfield Local Environmental Plan 2012 (LEP) as SP2 Electricity Supply.

3 PROJECT NEED

Building quality

The Homebush Depot facility is over 50 years old and is facing end-of-life issues and accommodation and storage constraints.

A recent Building Code of Australia audit has revealed non-compliance within the various buildings across the site. The key areas for improvement have been identified as travel distances and paths of travel, fire doors, hydrants, firefighting equipment, fire compartment separation, emergency lighting, exit signage, balustrade/handrails to stairs and provision for people with disabilities.

The photos below show evidence of the types of issues at Homebush Depot which include cracks in walls and cramped conditions for storing equipment.

Figure 2. Conditions at Homebush Depot



Source: Ausgrid

Identified end-of-life issues include the building air conditioning and fire and electrical systems in need of replacement.

In alignment with the Property Plan to rationalise staff accommodation, there is a need to provide additional space in order to accommodate staff displaced as a result of the consolidation of other depot sites within the property portfolio. Further, there is a need to provide additional storage space in order to remove existing temporary container structures.

Workforce

The workforce plan for Homebush comprises approximately 172 field operations staff and 178 field/blend staff.

The workforce numbers should be seen within the context that depots are designed to sustain a 40-year life and to cater for business changes and potential emergency events throughout that period. The ratio and numbers of staff and contractors is expected to vary over time.

Inventory and storage

The Homebush Depot would be an inventory satellite location for the Sydney South area serving Ausgrid's staff and contractors.

The proposal to upgrade the existing depot is designed to meet the region's field operations and logistic requirements as informed by Ausgrid's operational requirements.

4 OPTIONS AND ASSESSMENT

4.1 Assessment process

In assessing the preferred option for Homebush Depot, 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 Homebush Depot was to identify the range of options that could overcome the problems of the current site and ensure suitable accommodation in the Sydney South area.

Four possible options were identified and each one is described in brief below:

- Option 1 – Do nothing. This involves no capital expenditure
- Option 2 – Rebuild Homebush at the existing site. This would be undertaken in a staged approach. The objective would be to have the depot completed and operational by Q4 FY24
- Option 3 – Replace Homebush at a new site. This would require looking for a new site of a suitable size and good access to motorways
- Option 4 – Refurbish Homebush. This would involve capital works in the 2019-24 period that would address some of the issues. However, further capital works would be required in around 10 years to address all the issues at the site.

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:

- Maintain proximity and capacity to support the Sydney South area
- Addresses current and future growth demands of the Sydney South area
- Upgrade a depot that is at the end of its life expectancy (fully depreciated)
- Provide a fit for purpose facility with security of tenure
- Consolidation of business unit activities through the implementation of a revised depot typology
- Located in close proximity to the major arterial road networks to reduce travel times to and from projects
- Located in close proximity to public transport hubs in the area to reduce travel times to and from work for employees
- Efficient capital recycling of the Regulated Asset Base Non Network Property Portfolio
- Manage lifetime property costs.

Each of the four identified options was assessed against operational criteria and given a score and ranking.

The qualitative assessment of the options was undertaken by subject matter experts in the property area. Our assessment against the operational objectives is presented in Table 2 below.

Table 2. Assessment of options against operational criteria

Objective	Option 1 DO NOTHING	Option 2 REBUILD HOMEBUSH AT EXISTING SITE	Option 3 REPLACE HOMEBUSH AT NEW SITE	Option 4 REFURBISH HOMEBUSH
Proximity to support the Sydney South area	5	5	1	5
Upgrade of a depot that is at the end of its life expectancy	1	5	5	1
Provide a fit for purpose facility with security of tenure	1	5	5	5
Consolidation of business unit activities through the implementation of revised depot typology	1	5	5	1
Located to suit current and future growth demands of Sydney South area	5	5	1	5
Located in close proximity to major arterial road networks and public transport hubs in the area	5	5	1	5
Provide a cost effective solution	1	5	1	5
TOTAL	19/35	35/35	19/35	27/35

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

A Net Present Cost (NPC) assessment is used to compare the costs of options where it is not possible to quantify all the benefits.

A cost effectiveness analysis of Option 2 (Rebuild) and Option 4 (Refurbish) was undertaken to compare the quantitative outcomes.

It was found that rebuilding at the site (Option 2) had a lower NPC than Option 4. This was due to the higher capital and operating costs of Option 4 over the 40 year period.

Table 3. Assessment of options

Option	Description	Assessment	Ranking
<p>Option 1 Do nothing.</p>	<p>This option provides for remaining at the existing Homebush Depot 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 350.</p> <p>Further, the buildings at the site do not satisfy the current Building Code of Australia requirements.</p>	<p>Option 1 does not address the identified need and is not considered viable.</p>
<p>Option 2 Rebuild depot at existing site.</p>	<p>This option provides for the rebuilding of the existing depot at the Homebush site.</p> <p>The preliminary cost of the rebuilds set out in the master plan is \$65 million (real FY19).</p>	<p>The NPC of Option 2 is \$55.1 million. This is lower than the NPC of Option 4 of [REDACTED]</p> <p>This redevelopment would deal with the property end of life issues, accommodation and storage constraints and Building Code of Australia requirements.</p> <p>There is also potential for surplus land to be available after the reconfiguration. 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 2 is the most cost effective option and meets all of the operational criteria.</p> <p>Option 2 is the preferred option.</p>

Option	Description	Assessment	Ranking
Option 3 Replace depot at new site	This option would involve moving the depot to a new site.	<p>This option provides for the replacement of the existing depot at a new site. A more suitable location than the current site has not been found.</p> <p>This redevelopment would deal with the property end of life issues, accommodation and storage constraints and Building Code of Australia requirements.</p> <p>However, the need to locate and acquire a suitable site would add significantly to the cost and time in providing an operational solution.</p>	Option 3 is not considered viable as a site that is more suitable than the current site has not been found.
Option 4 Refurbish depot at existing site	This option provides for a refurbishment of the depot to overcome the property end of life deficiencies and Building Code of Australia requirements.	<p>The scope of the work would not necessarily overcome the accommodation and storage constraints. It may be the case that alternative office space would need to be sourced.</p> <p>The cost of addressing these constraints is not cost effective. The NPC of this option is \$63.2 million which is higher than Option 2.</p> <p>This option would not enable the release of surplus lands.</p>	Option 4 is not preferred.

4.4 Summary of findings

Based on the operational review and options analysis, Option 2, being the rebuilding of the existing depot at Homebush, 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 Sydney South area addressing current and future growth demands.
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Location	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 depot typology.
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 Homebush Depot that cannot be cost effectively overcome by refurbishing the depot. Rebuilding at a new site was not a feasible option as this creates a higher lifecycle cost and does not meet other operational objectives.

Rebuilding at the site is the best solution for a depot in the Sydney South area.

5 DELIVERY MODEL

The project will be contracted to build by external contractors (outlined in the next section) and will undergo a market tender process to ensure the best value for money.

The redevelopment of Homebush Depot would 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 and supported as an efficient, commercial contracting model. This delivery model has been successfully deployed to deliver Singleton and Ourimbah Depots 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 Homebush Depot 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 depot to enable the lodgment of a development application.