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Business case 5: Wallsend Depot upgrade

Ausgrid

Content

1 SUMMARY

Ausgrid is proposing to upgrade the existing Wallsend Depot located in the Newcastle area. This proposed project is forecast to cost [redacted](real FY19) during the 2019-24 regulatory period. The cost of the proposed Wallsend Depot upgrade at the existing site was developed in the masterplan (this amount of capital expenditure represents the portion allocated to standard control services).

The Wallsend Depot is over 55 years old and a range of issues have been identified that need to be addressed. The issues include property end-of-life failures, accommodation and storage constraints and not meeting Building Code of Australia requirements.

Four options were considered in addressing the problems of the current depot configuration. Option 2, upgrading of the Wallsend Depot is the preferred and most prudent option. It addresses the problems with the existing buildings at the Wallsend Depot that cannot be cost effectively overcome by replacing the depot at a new site or simple refurbishment and also facilitates use of the depot as an inventory hub.

It is likely to result in surplus land at the site which is an efficient outcome. In the long run, it is the best solution for a depot in the Newcastle area.

The key benefits of this are summarised in Table 1 below.

Table 1. Summary of benefits of preferred option

Benefits	Description
Support	Maintains proximity and capacity to support the Newcastle area. Location is supported by management and is envisaged that it will improve business efficiency and staff morale.
Functionality	Upgrades a depot that is at the end of its life expectancy (fully depreciated). Provides a fit for purpose facility with security of tenure.
Location	Consolidates business unit activities through the implementation of revised depot typology. Addresses current and future growth demands of the Newcastle area. Located in close proximity to the major arterial road networks in the area.
Consolidation	Consolidation of buildings through the implementation of revised depot typology. Provides opportunity for surplus land.
Capital	Potential for surplus land provides opportunity for the disposals to reduce the value of the Regulatory Asset Base. Thereby potentially providing the opportunity for reducing prices to customers in the future.
Cost effective	Most cost-effective life cycle cost over a 40-year period.

The evolution of the functional brief and master plan would continue to refine the requirements for the Wallsend Depot to enable the lodgement of a development application with the objective of having the rebuilt Wallsend Depot operational by Q4 2023/24.

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.

2 CONTEXT

Ausgrid's depot at 78 Abbott Street, Wallsend, serves the Newcastle region. The Wallsend Depot is over 55 years old and a range of issues have been identified that need to be addressed. The issues include property end-of-life failures, accommodation and storage constraints and not meeting Building Code of Australia requirements.

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 the property portfolio.

The site, located in the Newcastle City Council area, is zoned under the Newcastle Local Environmental Plan 2012 (LEP) as IN2 Light Industrial and is in close proximity to low and medium density residential, public recreation and light industrial land uses.

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

Figure 1. Aerial view of Wallsend Depot

Source: Ausgrid

The Newcastle area is serviced by regional support depots/corporate offices at Wallsend, satellite depots at Cessnock, Rutherford and Salt Ash, with a pole store at Thornton.

The primary driver of the proposed investment in the Depot is the end-of-life issues and associated problems.

3 PROJECT NEED

3.1 Building quality

The Wallsend Depot is over 55 years old and several problems have emerged with the buildings on the site. The Wallsend Depot suffers from property end-of-life issues and does not meet Building Code of Australia requirements. Other issues include accommodation and storage constraints.

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 the property portfolio. Further, there is a need to provide additional storage space in order to remove the existing temporary container structures that are located on the site.

A recent Building Code of Australia audit commissioned by Ausgrid has found significant non-compliance within the various buildings across the site. The key areas for improvement are non-compliance of travel distances and paths of travel, fire door, hydrants, firefighting equipment, fire compartment separation, emergency lighting, exit signage, balustrade/handrails to stairs and provision for people with disabilities.

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

3.2 Workforce

The workforce plan for the Wallsend Depot comprises circa 160 office and 240 field/blend staff. The workforce plan accounts for employee exits, has been assessed against the capital and maintenance requirements of the area and reconfirmed by management.

The workforce numbers should be seen within the context that depots are designed to sustain a 50-year life and to cater for the business changes and climatic events occurring throughout that period. The work force includes Ausgrid staff and contractors and the numbers will vary over time.

3.3 Inventory and storage

Currently there is a need for the Wallsend Depot to become an inventory hub for the Newcastle area serving Ausgrid's staff and contractors.

The types of material that will be stored at the refurbished Wallsend Depot include equipment that is frequently used by field staff during maintenance and replacement operations. Types of equipment include poles, cross arms and insulators. The depot is one of the inventory hubs supporting Ausgrid’s main inventory repository at Somersby Depot.

4 OPTIONS AND ASSESSMENT

4.1 Assessment process

In assessing the preferred option for Wallsend 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 Wallsend Depot was to identify the range of options that could overcome the problems of the current site and ensure suitable accommodation in the Newcastle region.

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 Wallsend at the existing site. This option involves replacing and consolidating the number of buildings on the site (See the attachment for explanation of how costs are derived)[1]
- Option 3 – Replace Wallsend Depot at a new site
- Option 4 – Refurbish Wallsend Depot. This would involve capital works that would address end-of-life 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 objectives. The operational objectives are used to decide which of the options are feasible and should be further considered. Only feasible options are considered in a cost effectiveness calculation.

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

- Maintains proximity and capacity to support the Newcastle area
- Upgrades a depot that is at the end of its life expectancy
- Provides a fit for purpose facility with security of tenure
- Consolidation of business unit activities through the implementation of revised depot typology
- Addresses current and future growth demands of the Newcastle area
- Located in close proximity to the major arterial road in the area
- Efficient capital recycling of the Regulated Asset Base Non-Network Property Portfolio
- Location is supported by management and is envisaged that it will improve business efficiency and staff morale

[1] This amount of capital expenditure represents the portion allocated to standard control services.

- Provide least cost lifecycle solution.

Each of the four identified options was assessed against operational criteria and given a score to determine the options that are feasible.

The qualitative assessment of the options was undertaken by subject matter experts in the property area. A review of the possible options based on 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 WALLSEND AT EXISTING SITE	Option 3 REPLACE WALLSEND AT NEW SITE	Option 4 REFURBISH WALLSEND
Proximity to support the Newcastle 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 Newcastle area	5	5	1	5
Located in close proximity to major arterial road networks in the area	5	5	1	5
Provide a cost effective capital 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

Options 1 and 3 do not meet the many of the operational objectives and are not considered as viable options. Option 4 meets a high number of operational objectives while Option 2 fully meets all of them. We present a quantitative assessment of Options 2 and 4 in the following section.

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 of the two highest ranked options.

The timeframe of the cost effectiveness analysis was 40 years, representing the standard life of depot buildings.

Our assessment of quantitative and qualitative outcomes is presented in 0 below.

Table 3. Assessment of options

	Description	Assessment	Ranking
Option 1 Do nothing.	This option provides for remaining at the Wallsend Depot and not undertaking any capital works.	This option provides for the maintenance of the status quo. The disadvantage of the existing Wallsend Depot are the property end-of-life issues and accommodation and storage constraints, which would not be addressed and would continue to be problematic. Further, the buildings at the depot do not satisfy the current Building Code of Australia requirements.	Option 1 does not address the identified need and is not considered a viable option.
Option 2 Rebuild Wallsend at the existing site.	This option provides for the rebuilding of the existing depot at the Wallsend site. This redevelopment involves replacing and consolidating the number of buildings on the site. There may be the opportunity for surplus land. The cost of this option is [redacted](real FY19).	Wallsend is a suburban area to the west of the Newcastle area and is in close proximity to low and medium density residential, public recreation and light industrial users. The current site is ideally located within a light industrial zoned area does not adjoin any residential land uses. It has access to major arterial roads and M1 Freeway. Wallsend Depot provides network coverage to the north and south of the franchise area and is generally considered a good location to support the existing and future growth of the area. The redevelopment will rectify property end-of-life issues, accommodation and storage constraints and Building Code of Australia requirements and potentially identify surplus lands. Reconfiguration of the site will allow for the depot to become an inventory hub for spare parts and equipment. The NPC of this option is $19.8 million. This is more cost effective than the quantitative assessment made on Option 4. Consolidation of buildings is likely to free up land at the site which could potentially be sold and reduce the value of the Regulatory Asset Base.	Option 2 is the most viable option as it is the only one that fully meets all of the operational criteria. It is also more cost effective than the second ranked option 4. Therefore Option 2 is the preferred option.

	Description	Assessment	Ranking
Option 3 Replace Wallsend Depot at a new site.	This option would involve replacing the existing Depot at a new (unknown) site.	This redevelopment would deal with the property end-of-life issues, accommodation and storage constraints and Building Code of Australia requirements. Based on an assessment of available property options in the area, the need to locate and acquire a suitable site would add significantly to the cost and time in providing an operational solution. Currently, there is no available site that would be suitable or cost effective to purchase.	Option 3 is not considered viable given that a suitable site has not been identified.
Option 4 Refurbish Wallsend Depot at existing site.	This option provides for a refurbishment of the Depot buildings to overcome the end-of-life deficiencies.	This option provides for a refurbishment of the Depot to overcome the property end-of-life deficiencies and Building Code of Australia requirements. This option would involve improving 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. However, the scope of the work would not necessarily overcome the accommodation and storage constraints nor enable the release of surplus lands. A further disadvantage of this option is that it retains the disparate buildings on the site and there is no freeing up of land. It does not provide a long-term solution for accommodating all of the required functions on the site. Spatial limitation will restrict the amount of accommodation and storage areas available in the future. The NPC of this option is $38.7 million, which is significantly higher than Option 2.	Option 4 is not preferred as it is not cost effective and would not address problems accommodation and storage constraints nor enable to possible release of surplus land.

4.4 Summary of findings

Based on the operational review and options analysis, Option 2, being the upgrading of the existing buildings at the Wallsend Depot, is the preferred option. A summary of the benefits is presented in Table 4 below.

Table 4. Summary of benefits of preferred option

Benefits	Description
Support	Maintains proximity and capacity to support the Newcastle area. Location is supported by management and is envisaged that it will improve business efficiency and staff morale.
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Option 2 is the preferred and most prudent option. It addresses the problems with the existing buildings at the Wallsend Depot that cannot be cost effectively overcome by replacing the depot at a new site or simple refurbishment and also facilitates use of the Depot as an inventory hub.

It is likely to result in surplus land at the site which is an efficient outcome. In the long run, it is the best solution for a depot in the Newcastle area.

5 DELIVERY MODEL

The evolution of the functional brief and master plan would continue to refine the requirements for the Depot to enable the lodgement of a development application with the objective of having the depot operational by Q4 FY24.

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 upgrade at Wallsend 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 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 upgrading the Wallsend Depot set out in the master plan is [redacted](real FY19) (This is for the standard control services component of the project). The cost of this option has 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 lodgement of a development application.