

5.21.2

# Business case 2: Horsnby Depot Replacement – Confidential

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# 1 SUMMARY

Ausgrid is proposing to replace the existing Hornsby Depot at the nearby Mt Kuring-gai depot. This proposed project is forecast to cost [REDACTED] (real FY19) during the 2019-24 regulatory period (this amount of capital expenditure represents the portion allocated to standard control services).

Ausgrid's current Hornsby Depot serves Sydney's Upper North Shore region. The Hornsby Depot is facing end-of-life issues and accommodation and storage constraints. The buildings on the site range in age from 31 to 81 years old. The need has been identified for the commencement of a phased replacement of the Hornsby Depot.

It is proposed to replace the Hornsby Depot with a new facility to be constructed at Ausgrid's Mt Kuring-gai site (situated at 1-11 Woodland Way Mt Kuring-gai).

The proposed redevelopment of Mt Kuring-gai at a capital commitment of [REDACTED] is designed to meet the region's ongoing field operations and logistic requirements as informed by the ongoing transformation program. The site, located in the Hornsby Shire Council area, is zoned under the Hornsby Local Environmental Plan 2013 (LEP) as IN1 General Industrial and is in close proximity of general industrial users.

The ongoing development of the functional brief and master plan will continue to refine the requirements for the proposed Mt Kuring-gai Depot to enable the lodgement of a development application with the objective of having a replacement depot operational by Q4 2023/24.

This project delivers a replacement field operations service depot facility to the region, with significant ongoing operating and capital expenditure programmes, many of which operate across 24 hours a day.

The zoning of the Mt Kuring-gai Depot enables this issue to be addressed for the foreseeable future, noting substantial warehouse and industrial usage in the area.

The key 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 Upper North Shore area.
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. New location is in a more appropriate zoning away from residential use areas thereby addressing the incompatibility of current depot operations with the adjoining residential use zoning.
Consolidation	Consolidation of business unit activities through the implementation of revised depot typology.
Capital	Potential future sale of the Hornsby site could allow for disposals to reduce the value of the Regulatory Asset Base. Thereby reducing prices to customers in the future.

Relocating the Hornsby Depot to Mt. Kuring-gai (Option 2) is the most prudent option. It addresses the problems with the existing Hornsby Depot that cannot be overcome by refurbishing or upgrading at the Hornsby site. It is the only option identified that meets all of Ausgrid operational objectives. In the long run, it is the only viable and credible solution for housing office and depot in the Upper North Shore area.

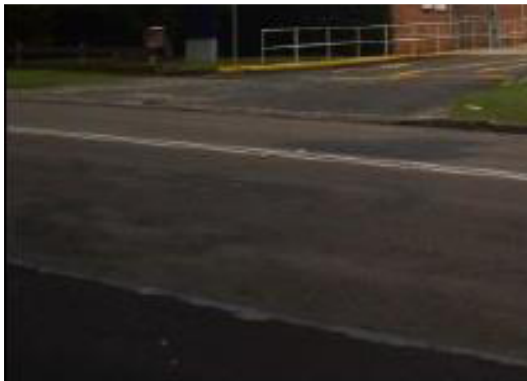
## 2 CONTEXT

Ausgrid's Hornsby Depot serves Sydney's Upper North Shore region. The buildings on the site range in age from 31-81 years old and some buildings are facing end of life issues. The site also has accommodation and storage constraints.

This current depot is located in the Hornsby Shire Council area and is in close proximity to both high and low density residential uses. The depot site is zoned under the Hornsby Local Environmental Plan 2013 (LEP) as SP2 Infrastructure.

The current field operations at Hornsby are in part restricted by nearby residential uses with respect to noise with potential impact from after normal business hours depot operations.

**Figure 1.   Hornsby Depot**



Source: Ausgrid

The facilities on the site include office accommodation, storage warehouses and workshops. The need has been identified for the commencement of a phased replacement of the depot due to the end of life issues and limitations in the accommodation and storage constraints.

## 3 PROJECT NEED

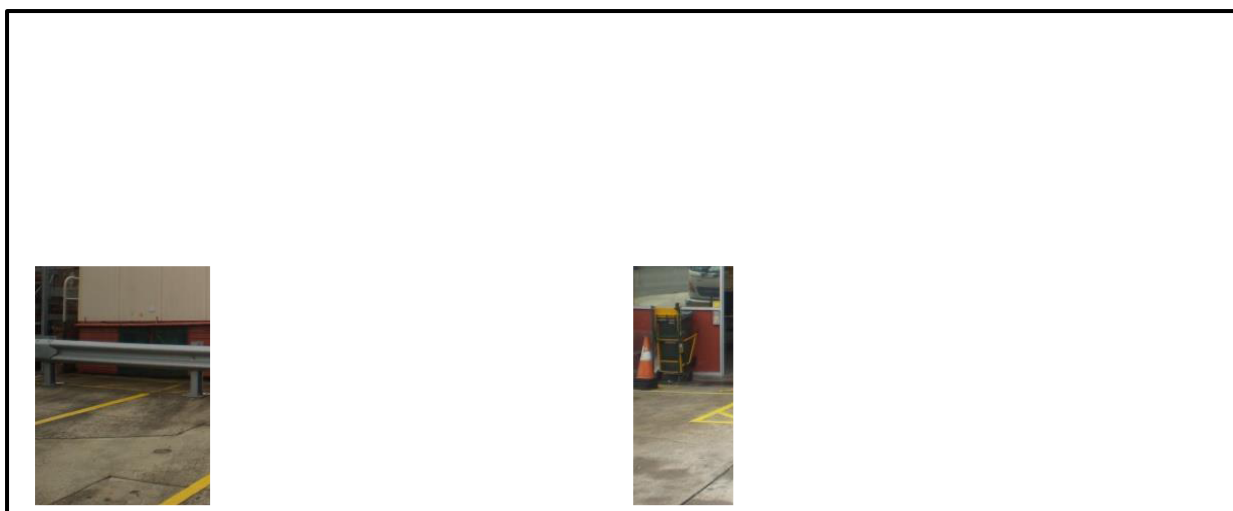
### 3.1 Building quality

Several issues have been identified at the Hornsby Depot including property end-of-life issues, accommodation and storage constraints and Building Code of Australia requirements.

The buildings on the site range in age from 31-81 years old. A recent Building Code of Australia audit has revealed significant non-compliance (section C Fire Resistance, section D Access and Egress, and section E Services and Equipment) within the various buildings across the site. The key areas for improvement have been identified as 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 provisions for people with disabilities.

The photos below show evidence of the types of issues at Hornsby Depot which include overcrowding (temporary accommodation in demountable buildings used) and poorly designed and ill equipped storage space.

**Figure 1. Conditions at Hornsby Depot**



Source: Ausgrid

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

### 3.2 Workforce needs

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 workforce plan for the proposed depot at Mt Kuring-gai is for 110 staff comprising circa 50 office and 60 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.

### **3.3 Inventory needs**

A key requirement is for the depot to service as an inventory hub for the Sydney Upper North Shore area serving Ausgrid's staff and contractors whose ratio and numbers will vary over time.

Further, there is a need to provide additional storage space in order to remove the existing temporary container structures.

The Sydney Upper North Shore area is serviced by a pole store at Mt Kuring-gai.

## 4 OPTIONS AND ASSESSMENT

### 4.1 Assessment process

In assessing the preferred option for Hornsby 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 Hornsby Depot was to identify the range of options that could overcome the problems of the current site and ensure suitable accommodation in the Sydney's Upper North Shore 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 – Replace Hornsby at Mt Kuring-gai. Ausgrid has a suitable property at Mt. Kuring-gai for a replacement depot. The General Industrial zoning of the site makes it suitable for the activities of a depot. The cost of this is estimated to be [REDACTED] (see the attachment for explanation of how costs are derived)<sup>1</sup>
- Option 3 – Rebuild Hornsby at the existing site
- Option 4 – Refurbish Hornsby. 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. Only feasible options are considered in a cost effectiveness/net present value calculation.

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

- Proximity to support the Sydney Upper North Shore area
- Replace a depot that is at the end of its life expectancy
- Provide a fit for purpose facility with security of tenure
- Consolidation of business unit activities through the implementation of revised depot typology
- Located to suit current and future growth demands of the Sydney Upper North Shore area
- Located in close proximity to major arterial road networks in the area
- Provide least cost lifecycle solution.

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. A review of the possible options based on the operational objectives is presented in Table 3 below.

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

Objective	Option 1	Option 2	Option 3	Option 4
	DO NOTHING	REPLACE HORNSBY AT MT KURING-GAI	REBUILD HORNSBY AT EXISTING SITE	REFURBISH HORNSBY
Proximity to support the Sydney Upper North Shore area	5	5	5	5
Replace a depot that is at the end of its life expectancy	1	5	1	1
Provide a fit for purpose facility with security of tenure	1	5	1	1
Consolidation of business unit activities through the implementation of revised depot typology	1	5	1	1
Located to suit current and future growth demands of the Sydney Upper North Shore area	5	5	5	5
Located in close proximity to major arterial road networks in the area	5	5	5	5
Provide a cost effective solution	1	5	1	1
<b>TOTAL</b>	<b>19/35</b>	<b>35/35</b>	<b>19/35</b>	<b>19/35</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. Only Option 2 fully meets the operational objectives.

### 4.3 Assessment of options

In this case, replacing Hornsby Depot at a new site at Kuring-gai presents as the most viable option as it fully addressed the operational objectives including building and location issues. We did not undertake a quantitative assessment other options as they did not address the accommodation, storage needs and issues with the location.

A cost effectiveness analysis of the most feasible option (Option 2 Rebuild at Kuring-gai) was prepared over a 40-year period. The NPC of replacing Hornsby Depot at a new site at Kuring-gai was \$20.8 million.

Our assessment of quantitative and qualitative outcomes is presented in Table 3 below.



**Table 3. Assessment of options**

Description	Assessment	Ranking
<p>Option 1 Do nothing.</p>	<p>This option provides for remaining at the existing Hornsby 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 current field operations at Hornsby are in part restricted due to the proximity of residential uses. Problems have arisen with respect to noise impacts caused by out-of-hours depot operations.</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 a viable option.</p>
<p>Option 2 Rebuild depot at new site.</p>	<p>This option provides for replacing Hornsby at Mt. Kuring-gai.</p> <p>The preliminary cost of the rebuilds set out in the master plan is ██████████ (real FY19).</p> <p>Ausgrid has a suitable property at Mt. Kuring-gai for a replacement depot.</p> <p>Mt Kuring-gai is an industrial area to the north of the Sydney Upper North Shore area and is in close proximity to general industrial uses. It has access to major arterial roads and the M1 Freeway. It 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 relocation would provide a fit for purpose facility with security of tenure. It would deal with the property end-of-life issues, location problems, accommodation and storage constraints and Building Code of Australia requirements. This option addresses current and future growth demands of the Sydney Upper North Shore area.</p> <p>The NPC of Option 2 is \$20.8 million.</p> <p>There is also potential for surplus land to be available after the relocation to the new site. 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 viable as it is the only one that fully meets all of the operational criteria.</p> <p>Therefore Option 2 is the preferred option.</p>

	Description	Assessment	Ranking
Option 3 Rebuild depot at existing site.	This option would involve rebuilding the depot at the existing site.	This redevelopment would deal with the property end-of-life issues and Building Code of Australia requirements.  However, the scope of works would not address the accommodation and storage constraints or the incompatibility of depot operations with the adjoining residential use zoning.	Option 3 is not considered viable as it would not address problems with the current site being in a residential use zoning.
Option 4 Refurbish depot at existing site	This option provides for a refurbishment of the depot to overcome the end of life deficiencies.	The refurbishment would not address the accommodation and storage constraints, the Building Code of Australia requirements, or the incompatibility of depot operations with the adjoining residential use zoning.	Option 4 is not preferred as it would not address problems with the current site being in a residential use zoning.

## 4.4 Summary of findings

Based on the operational review and options analysis, rebuilding the depot at Mt. Kuring-gai is the preferred option. Ausgrid already has a site at Mt Kuring-gai suitable for building the depot. For these reasons it is 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 Upper North Shore area.
Functionality	Replaces a 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 in the area. New location is in a more appropriate zoning and away from residential use areas thereby addressing the incompatibility of current depot operations with the adjoining residential use zoning.
Consolidation	Consolidation of business unit activities through the implementation of revised depot typology.
Capital	Potential future sale of the Hornsby site could allow for disposals to reduce the value of the Regulatory Asset Base, thereby reducing prices to customers in the future.

Option 2 is the most prudent option. It addresses the problems with the existing site and ageing buildings at the Hornsby Depot.

## 5 DELIVERY MODEL

The ongoing development of the functional brief and master plan will continue to refine the requirements for the proposed Mt Kuring-gai Depot to enable the lodgement of a development application with the objective of having a replacement 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.

The construction at Mt Kuring-gai 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 building the Mt. Kuring-gai Depot set out in the master plan is [REDACTED] (real FY19). 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 Mt. Kuring-gai Depot to enable the lodgement of a development application.