Revised Proposal

Attachment 5.20.3 JLL Project feasibility analysis - General Depot Refurbishment

PUBLIC

January 2019

Attachment 7

General Depot Refurbishment and Future Workplace Program

Prepared for Ausgrid

November 2018

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1 Executive Summary

1.1 Scope

JLL has been engaged by Ausgrid to provide analysis which identifies the requirement for a 'pool' of capital funds to address safety, environmental and compliance matters as well as to modernise office facilities.

1.2 Key Findings

Provided within this report are observations on the size, make up and ageing nature of the portfolio. We have been requested to provide a comment on the reasonableness of the updated budget of million (Future Workplace Program) and $1 million (General Depot Refurbishment), previously $7.5 million and $12.5 million respectively. Notwithstanding, we have not inspected or undertaken a detailed analysis of the broader portfolio, we have again considered these costs from a top down and bottom perspective:

- JLL have undertaken updated feasibility analyses on five major property projects with a total estimated delivery cost of $156.4 million. The combined 8. million reflects only 12% of the identified capital works across the five projects, despite this $ 8. million being associated to 83% of the portfolio.
- Further, evidence has been provided above on specific office and depot costs, giving an appreciation of the quantum of costs that can occur with these types of projects.

Based on the above, we believe the requested fund allocation appears reasonable.

1.3 Report Authors

[redacted]

2 Ausgrid Property Portfolio Overview

2.1 Context

Ausgrid define non-network property as offices and depots located throughout Ausgrid's distribution area, enabling the housing of staff that is critical to supporting the network and corporate functions.

We have had consideration to the Non-network Property Strategy Plan, which we have summarised / paraphrased below.

The Non-network Property Strategy Plan is designed to support the network capital program and upgrade existing non-network property to provide consistent and equitable standards of accommodation across the portfolio while improving the utilisation of facilities. The strategy is reviewed and updated on an annual basis to ensure it remains aligned with Ausgrid's Corporate Plan and comprises the six regional plans: Northern, Central, Sydney North, Sydney CBD, Sydney South and Sydney West.

The purpose of non-network property is to provide 'fit for purpose' accommodation facilities to Ausgrid's corporate and field staff. Non-network property does not include network property assets which directly house electricity network assets. The property portfolio includes an array of building assets that are either owned or leased.

The core types of non-network building assets are:

- Office accommodation - which is located across the franchise area and is required to house staff involved in direct planning of the network and project management of network investments. In addition, office accommodation enables staff to perform corporate functions in their role as a DNSP such as finance, reporting, and governance
- Depots - which are located across the franchise area and enable staff to construct new network assets, undertake preventative and corrective maintenance on network assets, and respond to reliability incidents. For this reason, depots are essential for maintaining the reliability and safety of the electrical network in accordance with their compliance obligations

2.2 Make Up of Non Network Property

Ausgrid's non-network property portfolio is located throughout the Ausgrid franchise area which covers 22,275 square kilometres across Sydney, Central Coast, Newcastle and the Hunter region. The non-network properties include:

- 19 primary depots that generally house field staff involved in constructing or maintaining network assets
- Four primary offices and five secondary offices that generally accommodate office staff

The facilities are located strategically across the franchise area in a manner that enables Ausgrid to fulfil their network and corporate objectives.

2.3 Capital Expenditure Drivers

Ausgrid invest in non-network property to replace, renew or create assets. When making decisions to replace or renew assets they are guided by regulatory obligations, guidelines and policies including:

- Regulatory Compliance – National Construction Code, Australian Standards, Building Code of Australia standards, Workplace Health and Safety Act, Environmental Planning Act, Heritage Act
- NSW Government Workplace Guidelines
- Ausgrid Policies – such as the "Be Safe" programs
- Ausgrid Guidelines – such as Office Accommodation and Depot Typology.

The property program drives benefits for Ausgrid through savings on the operation and maintenance costs of buildings. The majority of these savings are from efficiencies gained through the implementation of modern energy efficient systems above those currently installed, which although regularly upgraded and maintained are of a significant age and accordingly less efficient.

There are also savings in time and other efficiencies that the building and property program achieves through the consolidation of properties. There are additional unquantifiable savings in respect of staff wellbeing and a more efficient use of space leading to productivity increases.

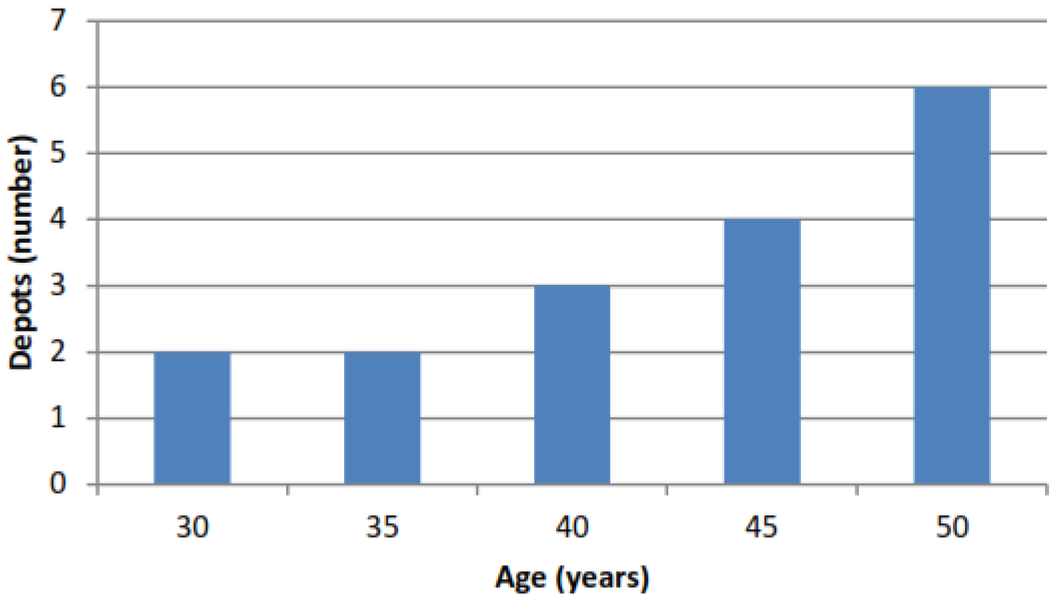
Where there is surplus property as a result of the replacement of land, Ausgrid undertakes an assessment of whether to sell or retain the property.

3 Observations and Analysis

3.1 Overview of Assets

Ausgrid have provided information relating to the current age of the depot portfolio. It was identified a significant proportion of the depots require renewal to meet modern day compliance standards. This was largely a result of having a significant number of aged assets. The figure below illustrates the depot age profile as at 2013. Similarly, we understand the office accommodation is dated both in terms of age of buildings as well as age of internal fit-outs.

Figure 1: Depot Aged Profile (As at 2013)



Source: Ausgrid

3.2 Rationale for Refurbishment Costs

Some of the benefits of investment in the facilities are outlined earlier but specifically provided below are comments that relate specifically to office and depot refurbishment:

- Move to more agile working to improve business performance
- Provide flexibility for our people in the ways that they work
- Introduce accommodation that fosters collaboration and customer interaction
- Provide a workplace that supports physical and mental health and well-being
- Improve the utilisation of non-network property assets.

3.3 Office Observations

Over the past 30 years office spaces have been revolutionised, in a large part due to technological advances, as well as recognition of the benefits of collaborative work environments.

The attributes of the traditional office with large assigned desks and separate offices – typically hierarchy based required much larger office footprints, in the order of ~20/sqm of net lettable area per person. Modern office standards are typically closer to ~12/sqm per person and provide much greater collaboration with few or no offices and more meeting / activity rooms.

In considering the above, refurbishments of offices – particularly dated offices are required on a regular basis. This serves to improve collaboration, staff satisfaction as well improves the efficiencies of the space both in terms of operating costs as well as greater use of the floor space (as described above).

In order to provide an appreciation of the materiality of refurb costs (including a fit-out) we have provided below the approx. cost of a new fit-out of 1,000 square metres of office. This cost reflects ~$4 million or ~$4,000/sqm.

Table 1: Example Cost for a 1,000 square metre Office Fit-out

New Fit-out	[redacted]
Main Contractor Preliminaries & Margin	
Construction Management fee	
Early works incl site preparation	
Office	
Security for site and buildings	
Site infrastructure incl services diversions	
External Works - Landscaping	
IT and Change Management	
Profesional Fees / Consultants	
Contingency	
Total Cost ($/sqm & total)	

Source: JLL

We are aware of a specific funding allocation being set aside for the ongoing refurbishment of offices spaces. While we have not inspected or undertaken detailed analysis of these assets, based on our view of the significant changes in offices and our understanding of the aged facilities it is reasonable that an allowance be provided for these facilities.

3.4 Depot Observations

The age of the depots as described above can result in significant issues in regards to safety, environmental and compliance matters as well as inefficiencies of existing facilities. We have an appreciation of these resulting risks as we have undertaken feasibility analysis of four Ausgrid depot sites which are being considered for major property projects.

Informing this analysis, we were provided Building Code of Australia (BCA) Audit / Upgrade reports, as well as Asbestos and Lead Building Materials Audit reports. Based on these reports – we provided cost estimates to ensure compliance of the BCA as well as removal of asbestos contamination. Across these four sites we found costs to rectify these ranged between $[redacted] million and $[redacted] million per site.

We are aware of a specific funding allocation being set aside for the rectification of issues described above for other depot assets. We have not inspected or undertaken a detailed analysis of the broader portfolio, however, believe based on the experience reviewing the depots described we believe it reasonably likely for similar issues to exist across the portfolio considering its age.

3.5 Key Findings

Provided earlier are observations on the size, make up and ageing nature of the portfolio. We have been requested to provide a comment on the reasonableness of the updated budget of [redacted] million (Future Workplace Program) and [redacted] million (General Depot Refurbishment), previously [redacted] million and $[redacted] million respectively. Notwithstanding, we have not inspected or undertaken a detailed analysis of the broader portfolio, we have again considered these costs from a top down and bottom perspective:

- JLL have undertaken updated feasibility analyses on five major property projects with a total estimated delivery cost of $156.4 million. The combined [redacted] million reflects only 12% of the identified capital works across the five projects, despite this $ 8. million being associated to 83% of the portfolio.
- Further, evidence has been provided above on specific office and depot costs, giving an appreciation of the quantum of costs that can occur with these types of projects.

Based on the above, we believe the requested fund allocation appears reasonable.

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