



## Council Business Plan

# Construction of Key Personnel Residential Dwellings

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## 1. Executive Summary

Unlike many smaller rural towns in Western Australia, the Shire of Jerramungup is fortunate to have a local Doctor. The local Doctor that services the Shire has a long standing relationship with the community and has been the community Doctor for over 20 years. The provision of medical services within the Shire allows local residents to gain medical treatment locally, rather than travelling to neighbouring towns such as Gnowangerup (95km), Ravensthorpe (114km) or Albany (178km).

Given the importance of providing the local community with medical services, the Shire of Jerramungup has budgeted to construct a new residential dwelling for the local Doctor on lot 204 Kokoda Road Jerramungup (adjacent to the medical centre).

From a strategic perspective, the provision of quality housing for the local Doctor will ensure that the community retains access to local health services and will make it easier for the Shire to recruit and retain the services of general practitioners into the future.

In addition to constructing a dwelling for the local Doctor, the Shire has included within the 2008/09 budget, an allocation to construct two new dwellings and renovate a third dwelling for the WA Police. The local Police are currently based in Ongerup and have confirmed that they will be relocating to Jerramungup.

To achieve economies of scale and attract a suitably qualified and experienced builder, the Shire has decided to construct all dwellings simultaneously. The table below indicates the scope of works, location and the current ownership of the land parcels in question.

<b>Construction Project</b>	<b>Scope of Works</b>	<b>Location</b>	<b>Current Property Ownership</b>
Doctors Residence	New dwelling	Lot 204 Kokoda Road Jerramungup	State Government
Police Residence	New Dwelling	2 Derrick Street Jerramungup	Shire of Jerramungup
Police Residence	New Dwelling	6 Derrick Street Jerramungup	Shire of Jerramungup
Police Residence	Renovated Dwelling	8 Derrick Street Jerramungup	Shire of Jerramungup

In July 2008, the Shire commissioned the services of a local architect, Mr John Farrington. Mr Farrington has almost completed the design and documentation for the dwellings in question.

This document analyses the financial viability, strategic alliance and risk associated with the Shire constructing the dwellings.

The proposal to construct three new dwellings and renovate a fourth property is aligned to the Shire's Mission Statement by embracing growth and prosperity.

## **Recommendations:**

### **That Council;**

- 1. Due to the significant financial risk associated with the Shire of Jerramungup coordinating this project as an owner builder, the Shire through a competitive tender process, appoints an appropriately qualified and experienced builder to complete this project.**
- 2. Commissions the services of the WALGA Tender Bureau Service to prepare the tender documentation and provide a full tender evaluation service.**
- 3. Continues to engage the services of Mr John Farrington as a consultant architect to supervise the construction program from both a timeliness and quality perspective.**
- 4. That the Shire seeks financial assistance at both State and Federal Government levels to offset the capital cost of constructing the Doctor's residence.**

## **2. Historical Context**

### **Doctor's Housing**

The current Doctor in Jerramungup has been servicing the local community for 20 years. The Shire currently provides the doctor with a house, motor vehicle and the provision of treatment rooms.

The Shire proposes to construct a new dwelling and treatment rooms for the Doctor in an effort to ensure that the community retains access to local health services and to recruit and retain the services of general practitioners into the future.

### **Police Housing**

The local Police are located in Ongerup (40km from Jerramungup). Over the last few years, the Police have expressed an interest in relocating their station from Ongerup to Jerramungup.

In moving the station to Jerramungup, the local Police will require housing for their staff. The current housing stock in Jerramungup is limited and therefore additional residences will be required.

The Shire has entered into negotiations with Government Regional Officer Housing (GROH) to establish their interest in the Shire constructing the dwellings and GROH leasing the dwellings from the Council with a zero residual balance over a 15 year period.

In essence, the Council will own the properties after 15 years.

### 3. Products, Methods of Construction and Funding Opportunities

The project proposes to deliver three new dwellings and one renovated dwelling within the town of Jerramungup.

#### ***New Doctors residence located at lot 204 Kokoda Road Jerramungup***

4 Bedroom, 2 Bathroom residence that has been designed in consultation with the local Doctor. The dwelling consists 192m<sup>2</sup> of living area, 48m<sup>2</sup> of garage/storage, 24m<sup>2</sup> of patio/alfresco and 96m<sup>2</sup> of veranda area and incorporates treatment rooms. The total roof area is 360m<sup>2</sup>.

The proposed dwelling will include all paving, fencing and landscaping. The total estimated cost is \$350,000.

#### ***New Police residence located at 2 Derrick Street Jerramungup***

4 Bedroom, 2 Bathroom residence that has been designed in consultation with the Police. The dwelling consists 195m<sup>2</sup> of living area, 48m<sup>2</sup> of garage/storage, 20m<sup>2</sup> of patio/alfresco and 104m<sup>2</sup> of veranda area. The total roof area is 367m<sup>2</sup>.

The proposed dwelling will include all paving, fencing and landscaping. The total estimated cost is \$350,000.

#### ***New Police residence located at lot 6 Derrick Street Jerramungup***

4 Bedroom, 2 Bathroom residence that has been designed in consultation with the Police. The dwelling consists 195m<sup>2</sup> of living area, 48m<sup>2</sup> of garage/storage, 20m<sup>2</sup> of patio/alfresco and 104m<sup>2</sup> of veranda area. The total roof area is 367m<sup>2</sup>.

The proposed dwelling will include all paving, fencing and landscaping. The total estimated cost is \$350,000.

#### ***Renovated Police Dwelling located at 8 Derrick Street Jerramungup***

The renovated dwelling is an existing Shire owned property consisting 3 bedrooms and two bathrooms. The architect has placed particular emphasis on the wet areas by remodelling the kitchens and bathrooms.

The renovated dwelling will include all paving, fencing and landscaping. The total estimated cost is \$150,000.

The Shire of Jerramungup will provide ongoing maintenance for the Doctors residence. The Police dwellings will be maintained by GROH.

#### ***Methods of Construction***

The Shire of Jerramungup has two options with regard to constructing the dwellings in question. The first option is for the Shire to construct the dwellings as an owner

builder and the second option is for the Shire to appoint a suitably qualified and experienced builder to build the dwellings for the Shire.

### **Owner Builder**

Recent discussions have revealed that the Shire had investigated coordinating this project as an owner builder. Under this method of construction, the Shire takes on the role of a builder and coordinates the trades until the building is complete.

In essence, by breaking the project into trade disciplines the Shire alleviates some of the tendering provisions within the Local Government (Functions and General) Regulations however takes on the construction risk.

This method of construction does carry a significant amount of risk as the Shire does not have the capacity internally to deliver this project on time and on budget. Financially, given that the Shire has very little experience in coordinating projects such as this, the possibility of cost variations or not being able to secure trades at the appropriate times are significant.

On the other hand, by being the owner builder the Shire can elect to use local trades people and source materials locally so that the community benefits from this project.

### **Appointing a Builder**

Under this method of construction, the Shire would tender for the services of a builder and appoint a builder under a fixed priced contract. This method of construction shifts the construction risk onto the builder and will provide the Shire with a definitive construction cost.

At this stage, given the current climate within the building industry it would be preferred to tender the entire project and shift the construction risk to a suitably qualified and experienced builder. Under this method of construction, the Shire can use the tender services of WALGA to ensure that the drawings and specifications meet industry standards and incorporate the general conditions of contract to ensure that the documentation is legally compliant.

Although the instance of contract variations remains a distinct possibility, the submission of a fixed price at the conclusion of the tender period provides the Shire with a real indication of the total construction costs.

With regard to the local component, in developing the tender documentation, the Shire can include assessment criteria to ensure that the preferred contractor utilises local trades and sources materials locally.

### ***Funding Opportunities***

The Shire has identified funding opportunities through the National Rural and Remote Health Infrastructure Program. This program considers grant applications from Local Government's to establish medical infrastructure in remote locations.

This funding opens on 8 November 2008. From the previous rounds of funding and documentation available, it appears that the construction of a doctor's residence will meet the objectives of this Federal Government initiative.

The limit of funding available per applicant is \$500,000. However, the financial projections have assumed a worse case scenario with no funding being available to the Shire for this project.

With regard to the Police housing, GROH have agreed in principle to pay a lease fee on the properties that will result in a nil residual cost to Council over a 15 year period.

#### **4. Market Research and Analysis**

##### ***Doctors Residence***

Market research indicates that surrounding Shires have found it difficult to attract and retain a Doctor. Although the Shire of Jerramungup has been very fortunate in having the same Doctor for 20 years, every effort must be made by the Shire to retain the current Doctor's services for as long as possible.

The Shire recognises that the current Doctor will not be in the Shire forever and by constructing a new modern residence, the Shire will be in a sound position to attract and retain a replacement Doctor should the existing Doctor decide to retire/leave Jerramungup.

##### ***Police Residence***

From a community perspective, research exists to suggest that a Police presence within a town will reduce the criminal activity within the locality. Although the Shire of Jerramungup has a reasonably low crime rate, strategically, a local police presence will keep this crime rate very low into the future.

The economic spin offs by relocating three families from Ongerup to Jerramungup will be significant for the town. Potentially, the local school and retail outlets will benefit from a moderate increase in population.

#### **5. Competitive Neutrality Declaration**

This business plan factors in the Federal Government's National Competition Policy as it relates to the requirement to consider if it is in the public interest to apply the principles of competitive neutrality, and if so to demonstrate the elimination of all unfair advantages.

Every effort has been made to eliminate unfair advantages that may have arisen from the Shire's ownership of these dwellings and all financial elements reflect full cost attribution.

## 6. Risk analysis

Based on the financial modeling completed a qualitative risk assessment has been undertaken. This risk assessment broadly qualifies and ranks various factors that could impact on the projects profitability and performance.

This qualitative analysis indicates the likely probability of various risk factors occurring and states the associated risk to the financial performance of the business unit.

The probability rating ranges from most to least likely in the following order:

- Almost certain
- Likely
- Possible
- Unlikely
- Rare

The risk to financial performance ranges from high to low in the following order:

- Catastrophic
- Major
- Moderate
- Minor
- Insignificant

### **Risk: Project cost increases as a result of poor estimating**

**Likelihood = Moderate**

**Consequence = Moderate**

**Risk Assessment = High (7) Attention Required**

A scenario whereby the cost of constructing the facilities exceeds our estimations is a high risk. Using the risk assessment matrix, attention is required.

By tendering for the services of a builder and requesting a fixed priced tender sum, the Shire alleviates some of the uncertainty with regard to cost escalation and variations throughout the project.

This level of risk can be further reduced by employing the services of WALGA to ensure that our documentation is sound, therefore decreasing the possibility of contract variations.

### **Risk: Variations from the original plans**

**Likelihood = Possible**

**Consequence = Minor**

**Risk Assessment = Moderate (5)**

All construction programs contain an element of risk with regard to variations from the original plans. These variations will usually incur an additional cost during the building works.

The Shire has commissioned an architect to design the dwelling and further proposes to commission the services of WALGA to review the documentation and include various other contractual documents to ensure that the variation risk is mitigated.

**Risk: Identification and engagement of suitable tradespeople & coordination and continuity of work**

**Likelihood = Possible**

**Consequence = Minor**

**Risk Assessment = Moderate (5)**

The timely appointment of suitable trade's people throughout the construction program is critical to ensuring that the project remains on time and on budget.

Given that Jerramungup is a relatively small community with limited trades people, the correct programming would be difficult for the Shire to coordinate.

In response to this risk, by tendering for the services of a builder an assessment can be made on the trades available to the builder at the tender evaluation stage of this project. This will ensure that the builder has access to the right trades at the right time to ensure that the project has every chance of being delivered on time and on budget.

**Risk: Failure to achieve cost neutral outcome after 15 years**

**Likelihood = Possible**

**Consequence = Minor**

**Risk Assessment = Moderate (5)**

Discussions with GROH indicate that this Government Department is prepared to rent the Police residences from the Shire so that the Shire achieves a cost neutral outcome after a 15 year period.

The agreement with GROH needs to be established before construction commences. If the Shire were to owner build these facilities, we would enter into an agreement with the State Government without a firm construction cost. This could impact upon the Shire's ability to achieve the cost neutral status of the project after the specified time frame.

If the Shire was to go to tender and receive a fixed price, negotiations with GROH would be more accurate in terms of achieving the cost neutral outcome.

Other risks associated with this project include the Shire's legal responsibilities from a health and safety perspective and the theft of materials from the construction sites. These risks can be alleviated by shifting the construction risk to a builder therefore making these risks the builder's responsibility.

**Conclusion**

The major risk associated with this project is cost increases as a result of poor estimating and/or the engagement of suitable tradespeople to ensure continuity of work. Both risks are significant from a cost perspective and do require mitigation.

For this reason, it is recommended that the Shire tender the full project to a suitably qualified builder.

## **7. Financial Projections**

The financial projections have been included in the associated documents section of this business plan.

## **8. Shires Finance Strategy Impact Statement**

The Shire's draft Finance Strategy has provided for the construction of these dwellings. \$1,200,335 has been allocated for new residential properties in year 1 or 2008/09 of the plan.

## **9. Review Position and Date**

Insert here the responsible officer title, and the business plan review date.

Chief Executive Officer to review on or before 30/4/2009

## **10. Associated Documents**

- Financial projections
- Construction drawing for Lot 204 Kokoda Road
- Construction drawing for 2 Derrick Street
- Construction drawing for 6 Derrick Street
- Renovated drawing for 8 Derrick Street

CEO Authorisation: \_\_\_\_\_ Date: \_\_\_/\_\_\_/\_\_\_\_\_