



Council Business Plan

Construction of Swamp Road

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1.0 Executive summary

The Shire of Jerramungup has received a proposal from Main Roads WA to construct and seal 12.5km of Swamp Road from the intersection of Borden Bremer Bay Road to the intersection of Doubtful Islands Road.

Although a unique opportunity exists from a professional development perspective, the Shire of Jerramungup needs to ascertain if the organisational capacity exists to complete such a project on time, within budget and to the appropriate standards.

The Shire must also consider the forecast 2010/11 construction program and the expected effect on the provision of facilities and services as a result of participating in this project.

In response, this business plan has been prepared to;

- Detail the overall project scope
- Determine organisational capacity
- Outline the likely effect on the provision of existing facilities and services
- Develop a cost estimate
- Identify and mitigate risks
- Establish strategic compatibility

Recommendation:

That Council;

- 1. Receive the Council Business Plan – Construction of Swamp Road.**
- 2. Accepts the offer from Main Roads WA to construct 12.5km of Swamp Road from the intersection of Borden Bremer Bay Road to Doubtful Islands Road during the 2010/2011 financial year.**
- 3. Recognises the expected effect that this project will have upon the provision of facilities and services during the 2010/2011 financial year.**
- 4. Instructs the Chief Executive Officer to commence preliminary works immediately including the sourcing of gravel and water.**

2.0 Historical context

On Friday 6 November 2009 the Hon. Colin Barnett announced funding for a new road to improve access to tourist sites in the Fitzgerald River National Park.

This announcement was in response to the closure of BHP's Ravensthorpe Nickel Operations in an effort to boost the region's tourism industry and benefit communities that had been badly affected by the economic slowdown.

The State Government committed \$20m to the project, with a request for matched funding from the Federal Government to help deliver this essential project and to improve tourist access from the western and eastern ends of the park.

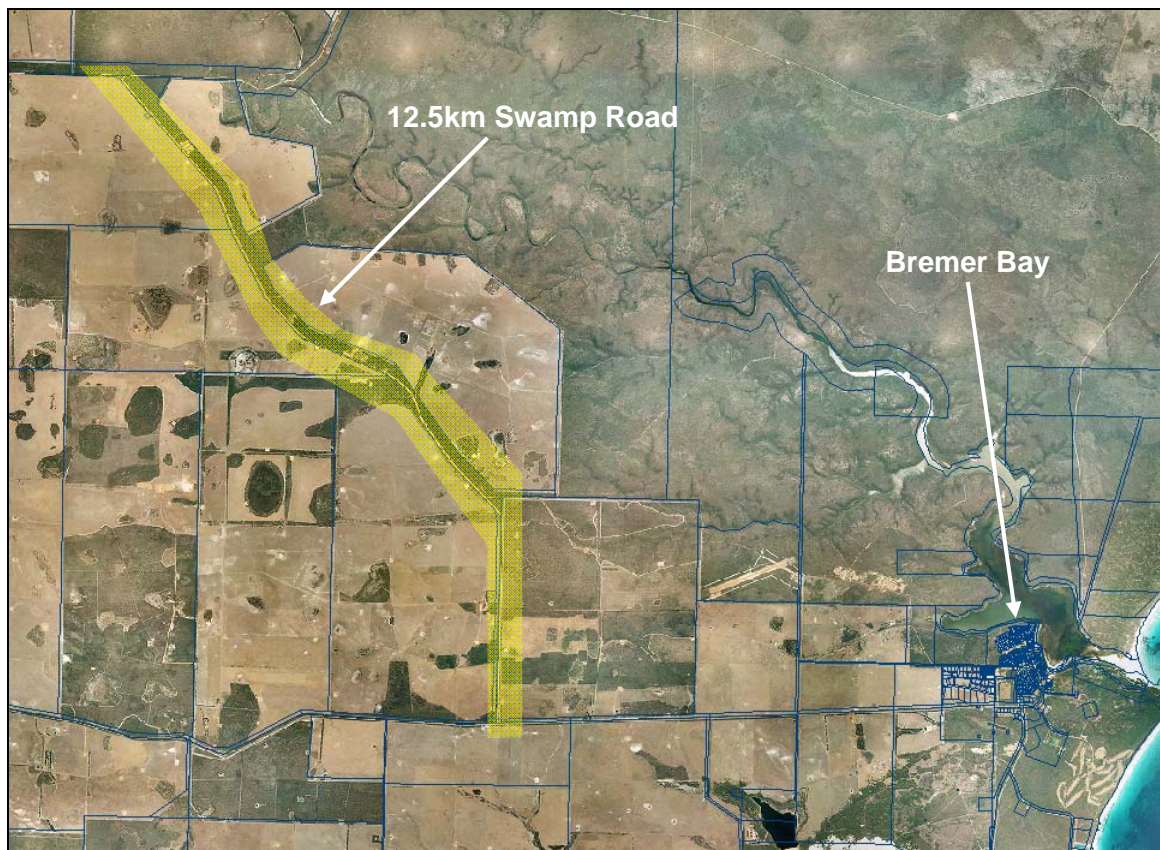
The project includes the reconstruction and sealing of existing roads including Hamersley Drive (from Hopetoun to Hamersley Inlet) and Bremer Bay to Point Ann. More specifically,

the proposed route from Bremer Bay to Point Ann includes Swamp Road, Doubtful Islands Road, Murray Road, Pabelup Drive and Point Ann Road.

On Tuesday 13 April 2010, the Shire of Jerramungup met with Main Roads to ascertain the current status of the Fitzgerald River road construction project.

On 23 April 2010, the Shire received an invitation from Main Roads to participate in this project and seal 12.5km of road during the 2010/11 financial year.

Should the Shire deliver this section of road within the appropriate time frame and financial parameters, opportunities may exist for further work in 2011/12 and 2012/13.



3.0 Overall project assessment

A number of the roads scheduled for improvement under this program are roads managed by the Shire of Jerramungup. As such, Main Roads is keen to engage the Shire to assist in the delivery of roadworks on these roads and more specifically a 12.5km section of Swamp Road in 2010/2011.

From the correspondence received from Main Roads, the Shire would be responsible for cost estimation, procurement of materials and construction. Main Roads would be responsible for road design and waterway analysis, site survey and control, materials testing and technical support as required.

Specifically, the 12.5km section of Swamp Road is a relatively simple project from a road construction perspective given that the route will follow the existing road alignment and the existing pavement material is in reasonably good condition.

4.0 Expected effect on the provision of facilities and services

Without considering the 12.5km section of Swamp Road, the Shire of Jerramungup is committed to delivering the following road construction program in 2010/11:

- a) Devils Creek Road (5km seal)
- b) Gairdner Road South (preservation works)
- c) Jerramungup Town Site Revitalisation Project

When considered collectively, the 2010/11 road construction program is very large. To the Shire's advantage, the construction of Devils Creek Road, Gairdner South Road and Swamp Road are all located within close proximity. This provides a significant advantage from a plant deployment and coordination perspective.

Additionally, the Shire does not anticipate applying internal resources to complete the Jerramungup Town Site Revitalisation Project. This project will be tendered using external contractors therefore lessening the burden on internal resources.

The addition of the Swamp Road project will however have a net impact on the Shire's annual resheeting program. If Council decides to proceed with this project no resheeting will occur in the 2010/11 financial year.

5.0 Expected effect on other persons providing facilities and services in the district

The Shire will supplement its own workforce with contractors to complete the proposed project. It is expected that various contractors within the Shire will benefit from this project.

6.0 Financial implications

Main Roads has a project budget of \$175,000 per kilometre to construct the roads under this program managed by the Shire of Jerramungup. As the Shire has recently constructed and sealed 5km of road within the immediate vicinity, these figures have been used as a basis for the following financial projections.

GENERAL ITEMS	COST \$
Survey and Design	\$1,297
Salaries and Wages	\$11,291
Materials / Contractors	\$66,689
Plant Depreciation Recovery	\$7,196
Plant Recoveries	\$11,722
Labour Overhead	\$6,879
Additional Gravel & Water Lead*	\$26,269
SUB TOTAL PER KM	\$131,343
Contingency	\$19,701
Project Management	\$16,418
TOTAL COST PER KM	\$167,462

TOTAL PROJECT COST
(12.5KM)

\$2,093,279

*Additional gravel and water lead has been calculated based upon the additional distance required to source appropriate materials in this area.

Given the projected costs associated with this project, it is anticipated that the Shire of Jerramungup can achieve a cost per kilometre of \$167,462. This includes a project contingency of 15% that allows for additional material costs, unforeseen earthworks and drainage costs, inclement weather and penalty rates for works completed on weekends and public holidays.

7.0 Legislative implications

Where the provision of services or materials exceed \$100,000 and are not subject to an existing contract, tenders will be called as required by local government Act 1995 s3.57.

8.0 Strategic implications (section 5.56)

In formulating the Shire's strategic plan, the Elected Group and Executive Team conducted a series of workshops that resulted in a vision, key focus areas and the broad objectives of the local government being established.

These elements were formulated from a systematic internal and external analysis. Under each strategic objective sits a series of projects that have been assigned to individual officers. This process assigns personal responsibility for the achievement of goals and establishes a definite expectation of performance.

This project relates to the following components from the Shire of Jerramungup's Strategic Plan;

Key Focus Area One: Ongoing Social, Economic & Financial Viability

The Shire of Jerramungup will continue to grow and prosper whilst maintaining its identity and sense of place by:

1.1 Identifying alternative revenue sources.

9.0 Organisational capacity

One of the main concerns in completing this project is the Shire's capacity from a human resources and technical perspective. Until recently, the Shire's capacity to complete such a project within the appropriate time frame, to the appropriate standards and financial parameters was uncertain.

This uncertainty was driven by a skills gap, as the Shire was deficient in terms of a Works Manager and appropriately experienced Final Trim Grader Operator.

The recent structural changes to the Shire's operations alleviate this concern and have

delivered a successful 2009/10 construction program. This program included the sealing of 5km of Devil's Creek Road on time, within budget and to the appropriate standards.

The introduction of a shared Works Manager with the Shire of Gnowangerup and the recent recruitment of Final Trim Grader Operator will ensure that the project is completed to the appropriate standards.

10.0 Risk assessment

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 Swamp Road exceeds the Shire's estimations is a high risk. Using the risk assessment matrix, attention is required.

In response to this risk, the Shire has applied historical costing methods to estimate the overall cost of construction. Additionally, the Shire will form a project management team consisting of the CEO, Deputy CEO, Executive Manager Infrastructure and Works Manager to oversee and manage this project.

Historically, the Shire has had issues tracking interim construction costs. This has been caused by running an electronic accounting system and hard copy purchasing system. As a result, committed costs are not recognised until invoices are received. In response the Shire is implementing an electronic purchasing system that commits costs to projects when purchase orders are issued well in advance of receiving invoices.

This project team will meet weekly to constantly monitor expenditure and communicate the project status back to Main Roads.

Risk: Construction material availability

Likelihood = Moderate

Consequence = Moderate

Risk Assessment = High (7) Attention Required

A significant risk in completing this project is the availability and quality of gravel and water. If an appropriate supply cannot be achieved within the immediate vicinity, significant cost increases will occur.

The Shire has completed preliminary investigations in terms of both gravel and water supplies from a quantity and quality perspective. It would appear that based upon this assessment an adequate supply of both gravel and water is available within close proximity to the construction area.

The quality of water within this area is a concern, as a number of surface supplies are brackish. In response, the Shire has identified a subsurface supply of good quality water within close proximity to the construction area.

Prior to commencing, the Shire will identify the supply of both gravel and water for the entire project taking into account 2011/12 and 2012/13. This will ensure that leads for both resources are minimised over the entire project.

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 construction works.

The Shire must ensure that allowances have been made to cover such variations. In response, a 15% variation component has been included within the cost estimates.

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 professional people and the conduct of the Shire's employees throughout the construction program is critical to ensuring that the project remains on time and on budget.

Given the Shire's recent acquisition of a Works Manager and Final Trim Grader Operator adequate skills now exists within the Shire's workforce to ensure continuity of work throughout the entire project.

The Shire employs a majority of the resources required for this project. These employees are bound by codes of conduct, performance criteria and are subject to regular performance reviews. This will ensure a dedicated and committed workforce participate in this project.

Local contractors will be used to supplement the Shire's workforce.

Risk: Inadequate staff performance

Likelihood = Possible

Consequence = Minor

Risk Assessment = Moderate (5)

The performance of supporting staff in this project is critical to its overall success. The Shire has slightly amended its structure in response to this risk and the incorporation of a shared Works Manager. Leading Hands are now in place for Townsites, Maintenance and Construction. This will ensure the ongoing performance of staff throughout the construction program.

Conclusion

The major risks associated with this project are fiscally based. Cost escalation as a result of poor estimating and inadequate project controls pose as high risks for this project. The implementation of a 15% project contingency, project control group and electronic purchase order system that directly applies committed costs to the general ledger will reduce the risks associated with this project.

11.0 Review position and date

Chief Executive Officer to review on or before 30/6/2011

12.0 Associated documents

- Participation correspondence – Main Roads WA

CEO Authorisation: _____

Date: ___/___/_____