



Council Business Plan

Bremer Bay Medical Facility

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1. EXECUTIVE SUMMARY

In response to community feedback, the Shire of Jerramungup has identified that the existing health facility in Bremer Bay is inadequate. The physical scale and functionality of the existing facility does not reflect the needs of our region nor does it assist in attracting and retaining health professionals and allied health workers.

The current inadequacies of the existing facility will be further compounded over the next 5 years as the population of Bremer Bay is expected to grow significantly. This forecast growth can be attributed to;

- The proposed Southdown Magnetite mine in Wellstead is only located 80km from Bremer Bay. It is anticipated that between 10-20% of Southdown employees will reside in Bremer Bay.
- The \$40m upgrade to the Fitzgerald River National Park is expected to attract an increased number of visitors each year.
- The Shire has recently supported several scheme amendments that will facilitate further rural residential subdivision and industrial development in Bremer Bay.

In response to community concerns and the forecast growth, the Shire has approached the Health Department to ascertain the likelihood of service infrastructure improvements in Bremer Bay. The Health Department has advised that although a new facility in Bremer Bay is important, it does not register as a priority on a state wide basis.

Given the immediate need for a new facility in Bremer Bay and based upon the likely lag that the town will experience whilst the Health Department addresses other propriety areas within the state, the Shire has decided to build a new facility in Bremer Bay and proposes to lease this facility to the Health Department.

This business case has been developed to investigate the feasibility of the Shire constructing a new medical facility in Bremer Bay and leasing this facility to the Health Department as the anchor tenant.

This document analyses the financial viability, strategic alliance and risk associated with the proposed development.

Recommendation:

That Council receive the Council Business Plan – Bremer Bay Medical Facility and adopt the following recommendations;

- 1. Authorise the Chief Executive Officer to submit a funding application under the Regional Development Council Action Agenda Funding Scheme for \$1,700,000.**
- 2. Subject to receiving funding under the Regional Development Council Action Agenda Funding Scheme, consider amending the Forward Capital Works Plan to reflect the Bremer Bay Medical Facility.**

2. PROJECT INFORMATION

2.1. *Project Description*

The current health facility in Bremer Bay is owned and operated by the Health Department. A recent community survey and continual stakeholder feedback indicates that the existing facility is inadequate. The inadequacies of the existing facility are summarised below;

1. *The facility only has one consulting room*

The facility hosts 3 visiting professionals each week that use the only consulting room. This forces the locally based Nurse Practitioner to treat patients from the kitchen/amenities area. On Wednesdays, the visiting professional requires both the consulting room and adjoining kitchen/amenities area. Consequently, the Nurse Practitioner is without a work area.

2. *The facility has no accommodation for visiting professionals or community paramedic (St John Ambulance is committed to a full time Paramedic who will reside in Bremer Bay at peak times to manage the community emergency care needs).*

During peak holiday periods when the population of Bremer Bay swells from 500 people to approximately 6,000 to 10,000 people, the Health Department deploys additional resources to assist the Nurse Practitioner. Visiting professionals are required to live in the kitchen/amenities area. The Shire feels that this is inadequate from both a security and amenity perspective.

3. *The facility has no shower for patient treatment*

4. *Acoustically, the facility is poorly constructed with patient confidentiality an ongoing community concern*

5. *The community fears that we will be unable to retain outstanding staff given the less than adequate facilities.*

6. *The emergency dock for ambulance delivery is inadequate.*

7. *The number of emergency bays is limited.*

8. *Patient transfers from ambulance to centre are not shielded from the elements, creating further risk to patient care and outcomes.*

9. *No ancillary office space is available.*

In response to the community issues outlined above and the anticipated population projections in Bremer Bay, the Shire approached the Health Department in terms of constructing a new facility in Bremer Bay. Although the Health Department has initiated a health services plan for the area, no funding or priority has been assigned to this strategically important area.

In response to these community concerns, the Shire intends to construct a new health facility in Bremer Bay. The new facility will address the community concerns outlined above and will provide adequate consulting/treatment rooms, shower facilities, additional emergency bays and a covered patient transfer area. Perhaps the most significant development will be the construction of professional accommodation to cater for visiting professions during peak holiday periods when the population swells to between 6,000 and 10,000 people.

2.2. *Objectives*

In developing a new facility in Bremer Bay, the Shire is aiming to address the inadequacies in the existing facility whilst;

- Ensuring that health infrastructure and service delivery reflects the needs of our region.
- Ensuring that our community receives timely, high quality and continuous health care throughout their lives.
- Ensuring that older residents have access to health and community support services that promotes independent and healthy living.
- Ensuring that health professionals and allied health workers are attracted to live, work and remain in our community.

a. Project Scope

This project is not a refurbishment of the existing facility. This project includes the detailed design and construction of an entirely new facility located within the new Bremer Bay Town Centre.

The new facility will include;

- Three consulting rooms
- Child and community health facility
- Staff amenities
- Office space
- Nurses station
- Secure customer foyer
- Observation and treatment rooms
- Staff accommodation for two visiting professionals
- Covered ambulance and patient transfer area

b. Key Deliverables

Item / Deliverable	Deliverable Date	Responsibility
Availability of Land	30 June 2012	Landcorp/ Shire of Jerramungup
Detained Design	30 June 2012	Shire of Jerramungup
Preparation of tender documentation	15 July 2012	Shire of Jerramungup
Award Tender	15 August 2012	Shire of Jerramungup
Construction commence	01 September 2012	Contractor
Construction complete	31 May 2013	Contractor
Opening	15 June 2013	Shire of Jerramungup

2. NEEDS ANALYSIS / PROJECT FEASIBILITY

a. Region Analysis

Bremer Bay is a regionally significant location from a holiday and recreation perspective. During Christmas and Easter, the population of Bremer Bay swells from 500 permanent

residents to between 6,000 and 10,000 people. A majority of these visitors are from surrounding towns and the central wheatbelt region of Western Australia.

In addition to this seasonal activity, the permanent population of Bremer Bay is expected to increase significantly (up to 70% or 350 additional people) within the coming years as a result of;

- The proposed Southdown Magnetite mine in Wellstead is only located 80km from Bremer Bay. It is anticipated that between 10-20% of Southdown employees will reside in Bremer Bay.
- The \$40m upgrade to the Fitzgerald River National Park is expected to attract an increased number of visitors each year.
- The Shire has recently supported several scheme amendments that will facilitate further rural residential subdivision and industrial development in Bremer Bay.

In an effort to cater for these visitors and permanent residents, the Shire feels that it is essential to upgrade the existing medical facilities in Bremer Bay. The upgraded facilities would allow for a greater level of patient care locally during peak holiday periods and would also provide our older population with a renewed confidence that will translate into ongoing independent and healthy living.

A new facility in Bremer Bay would facilitate a greater level of patient care locally, reducing the pressure on the larger regional centres such as Albany, Katanning and Perth.

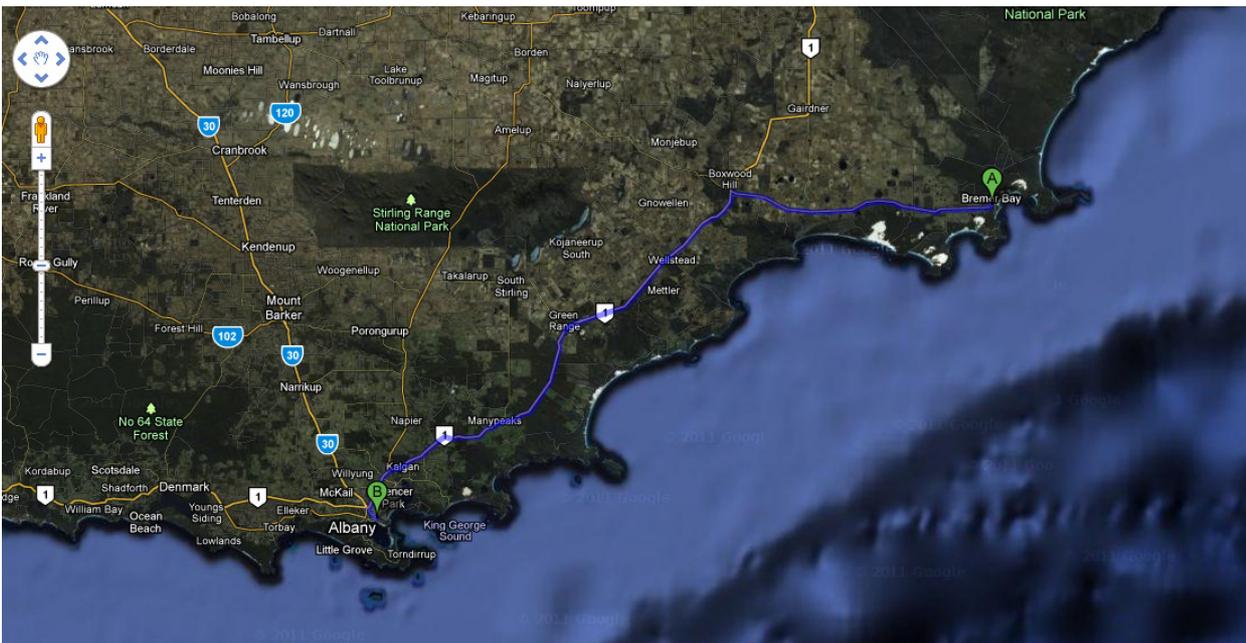


Figure 1: Distance from Bremer Bay to Albany is approximately 180km. Albany is the main health centre in the Great Southern Region.

b. Project Analysis

A new medical facility in Bremer Bay was identified within the Shire's Medical Services and Infrastructure Strategy. Key Action No.5 within this strategy identifies the upgrade, expansion and/or relocation of the Bremer Bay Medical Centre into the proposed Town Centre. This strategy was developed under key focus area two of the Shire of Jerramungup Strategic Plan 2009-2014.

Key Focus Area Two: Service Delivery & the Environment

The Shire of Jerramungup will deliver a range of excellent community services whilst minimising our impact on the environment by;

2.4 Supporting a range of community services that enhances the community fabric.

The financial model proposed seeks to reallocate the Shire's 2012/13 Country Local Government Fund allocation from the Bremer Bay Town Centre to this project. The balance of the capital expenditure will be sourced from external funding agencies.

This project will impact upon the Shire's 10 year financial management plan and forward capital works plan. If the Shire is successful in gaining funding, both documents will need to be amended to reflect the reallocation of funding from the Bremer Bay Town Centre to this project.

With regard to operational costs associated with this project, the leases over the subject facility will reflect that the lessees are responsible for all outgoings.

c. Cost/Benefit Analysis

For this project, the Shire of Jerramungup will provide the land and a cash contribution. The remaining capital costs will be sourced from external funding providers. The Shire will be responsible for the ongoing maintenance with the lessees responsible for operational outgoings.

A full financial analysis using a Discounted Cash Flow approach is outlined within the project budget section of this business case.

d. Critical Assumptions

The physical construction of the proposed health facility is a relatively simple process given the zoning provisions for the subject site and the availability of land. The land component and Shire cash contributions are the project 'givens' with the remaining funding subject to external decisions.

Perhaps the greatest critical assumption to this project is securing the Health Department as the anchor tenant. If the Shire and Health Department are unable to agree on lease terms (financial and time), then this project cannot proceed.

3. 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: Failure to achieve cost neutral outcome

Likelihood = Moderate

Consequence = Moderate

Risk Assessment = (7) Attention Required

Perhaps the greatest risk from the Shire's perspective is the overall development cost and the uncertainty surrounding the Health Department's tenancy.

In response, and to mitigate this risk, the development will not commence until a suitable lease agreement is in place that addresses the Shire's expectations from a financial and time perspective. The execution of a lease agreement will provide income certainty over the expected lease period.

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

A process by which a consulting architect is appointed to design and document the proposed development will significantly increase the accuracy of the development estimations and therefore reduce risk from an escalation perspective. This process will result in detailed drawings and specifications that the Shire can then tender under a fixed price contract.

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 for authority charges for headwork's or upgrade to any infrastructure. Often hidden cost may arise if the Water Corporation requires main line upgrades or Western Power requires transmission or substation upgrades.

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 throughout the construction program is critical to ensuring that the project remains on time and on budget.

Given that Bremer Bay is a relatively small community with limited trade's people, the correct programming would be difficult for the Shire to coordinate in house.

In response to this risk, the construction program should be tendered out under a fixed price contract. This will increase the chances of the project being delivered on time and on budget.

Risk: External funding not achieved

Likelihood = Moderate

Consequence = Moderate

Risk Assessment = (7) Attention Required

With regard to funding, the Shire has identified various funding partners including the Department for Regional Development and Lands and the Great Southern Development Commission. The Shire will submit funding applications to both agencies.

The Department for Regional Development and Lands is the major funding partner with \$1,700,000 requested for this project. Should the Shire be unsuccessful under this funding program, the likelihood of the project commencing without identifying another funding source is questionable.

4. APPROVAL REQUIREMENTS

A number of approvals are required to deliver this project. Firstly, as the development will be constructed within the Bremer Bay Town Centre, the structure plan and subdivision process will need to be finalised. As the structure planning process is well advanced, project timelines suggest a land availability timeframe of February/ March 2012.

From this point, the subject development will require planning approval and building licenses. As the Shire is the approval authority, the Shire does not anticipate any hindrance in the achievement of the stated outcomes.

a. Conclusions

Approval Type (i.e. Native Title, Heritage, etc)	Issues	Actions	Timeframe for Resolution
Structure Plan	Endorsed by Council & WAPC	Well progressed	February/March 2012
Subdivision	Endorsement by WAPC	Well progressed with preliminary Government consultation	February/March 2012
Planning Scheme Consent	Nil	Council approval	June 2012
Building Licence	Nil	Approval under delegated authority	June 2012

5. CONSULTATION

The Shire has received continual feedback from the community that the health facility in Bremer Bay is inadequate. This feedback culminated in a community survey administered by the Lower Great Southern District Health Advisory Committee. This survey again reinforced the inadequacies of the existing facility.

In addition to these consultative actions, the Shire has received letters of support from St Johns, Great Southern Development Commission and the Lower Great Southern District Health Advisory Committee supporting the project and endorsing the Shire's proactive approach.

6. GOVERNANCE AND MANAGEMENT

Being a local government, the overall governance and management of this project will be subject to the provisions as contained within the Local Government Act 1995 and supporting subsidiary legislation.

The application of this legislation will ensure that the necessary approvals are in place and that purchasing complies with tender provisions and the Shire's Purchasing Policy. Additionally, from a financial perspective, all funding and associated expenditure will be subject to local government audit requirements at year end.

a. Project Management

The Shire of Jerramungup has identified that this project is within its capacity to deliver as the project will be carried out using external contractors under the guidance of a supervising consultant. The project will also be subject to tender contracts which will bind the contractor to deliver an agreed outcome at the end of the construction period.

The Shire of Jerramungup has recently completed;

1. (2006). The construction of a partially renovated and new collocated business centre totalling \$1.3m. The construction was delivered on budget and close to the expected timeframe. Timeframe extensions were the result of materials availability and outside the control of the Local Government.
2. (2010). The construction of three residential dwellings in Jerramungup totalling \$1.2m. The construction was delivered on budget and on time.
3. (2011). The construction of a 12km tourist road through the Fitzgerald River National Park totalling \$2.3m.

The Shire of Jerramungup will use a number of supervision means for the completion of this project. A supervising architect will oversee the project and ensure that it is delivered within the specifications of the project and will report to the Chief Executive Officer on project status and any issues which have arisen during the delivery. There will not be a steering committee in this project as the project will be governed by tender contracts and the delivery of agreed outcomes as per the tender documentation.

a. Asset Ownership

The asset will be owned by the Shire of Jerramungup. The facility will be leased to a long term tenant. There are no asset management implications associated with this transaction.

The Shire has no intension of selling the asset at any stage.

b. Project/Asset Maintenance

Under the proposed lease arrangement, the lessee will be responsible for all outgoings. The Shire will be responsible for the ongoing maintenance of the facility. Ongoing maintenance and asset management have been incorporated into the discounted cash flow financial modelling.

4. PROJECT BUDGET AND IMPLEMENTATION

a. Procurement Strategy

Once funded, the Shire will appoint an architect via a tender process to commence detailed design. This process will culminate in a full set of detailed drawings and specifications being produced. From this point, the Shire will apply a legislative procurement process as defined under the Local Government Act 1995.

This process will ensure that a contractor is appointed under a fixed lump sum contract, therefore reducing the risks associated with cost escalations etc.

b. Project Budget

5.2.1 PRO-FORMA CASH BUDGET (All amount must be shown exclusive of GST)

TOTAL PROJECT COST: \$

List each item of project expenditure	Own Organisation Contribution \$	Action Agenda Funding Contribution \$	Other Grant Contribution (GSDC) \$	Other Grant Contribution (specify) \$	Other Cash Contribution (specify) \$	TOTAL \$
Wages / Administration	\$20,000					\$20,000
Design / Tender		\$160,000				\$160,000
Construction	\$160,000	\$1,540,000				\$1,700,000
Civil Works	\$200,000					\$200,000
Landscaping			\$160,000			\$160,000
TOTAL OTHER PROJECT CASH CONTRIBUTIONS	\$380,000		\$160,000			
TOTAL AA Funding CONTRIBUTION		\$1,700,000				
TOTAL CASH COST (\$)						\$2,240,000

Please add more columns for other sources of contributions if required

Please add more rows for item expenditure if required

This template is provided as an example only and may be altered to suit the requirements of the project as long as all required information is presented

5.2.2 PRO-FORMA IN-KIND BUDGET (All amount must be shown exclusive of GST)

List each item of project expenditure	Own Organisation Contribution \$	Other Organisation Contribution (specify) \$	Other Organisation Contribution (specify) \$	Other Organisation Contribution (specify) \$	Other Organisation Contribution (specify) \$	TOTAL \$
Land	\$360,000					\$360,000
Design / Tender	\$2,000					\$2,000
Construction	\$10,000					\$10,000
Civil Works	\$5,000					\$5,000
Landscaping	\$5,000					\$5,000
TOTAL PROJECT IN-KIND CONTRIBUTIONS	\$382,000					
TOTAL IN-KIND COST (\$)						\$382,000

Please add more columns for other sources of contributions if required

Please add more rows for item expenditure if required

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5.2.3 Discounted Cash Flow Analysis

RETURN ANALYSIS BASED ON DISCOUNTED CASH FLOW APPROACH												
Terminal capitalisation rate	N/A	Annual vacancy factor			10%							
Outgoings change each year		3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Rental change at the start of each year		3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Cash flow period	0	1	2	3	4	5	6	7	8	9	10	10
Beginning of Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2022
Construction Cost	-\$2,240,000											
Outflows (1.5% Capital Cost)	\$0	\$0	-\$33,600	-\$34,608	-\$35,646	-\$36,716	-\$37,817	-\$38,952	-\$40,120	-\$41,324	-\$42,563	-\$43,840
Inflows Capital Funding Construction	\$1,700,000											
Inflows Capital Funding Landscaping	\$160,000											
Inflows Tenant One	\$0	\$0	\$60,000	\$61,800	\$63,654	\$65,564	\$67,531	\$69,556	\$71,643	\$73,792	\$76,006	\$78,286
Inflows Tenant Two	\$0	\$0	\$13,000	\$13,390	\$13,792	\$14,205	\$14,632	\$15,071	\$15,523	\$15,988	\$16,468	\$16,962
Annual Vacancy			-\$7,300	-\$7,519	-\$7,745	-\$7,977	-\$8,216	-\$8,463	-\$8,717	-\$8,978	-\$9,247	-\$9,525
Net Income	-\$380,000	\$0	\$39,400	\$40,582	\$41,799	\$43,053	\$44,345	\$45,675	\$47,046	\$48,457	\$40,663	\$41,883
Terminal value												
Net cashflows	-\$380,000	\$0	\$32,100	\$33,063	\$34,055	\$35,077	\$36,129	\$37,213	\$38,329	\$39,479	\$40,663	\$41,883
NPV	-\$179,119.84											
IRR	-0.47%											

The financial model generated is based upon a discounted cash flow analysis that uses a number of assumptions to arrive at a net present value (NPV) and internal rate of return (IRR).

Discount Rate 10%

The discount rate which has been used to calculate an estimate of market value is typically a before tax, nominal, un-g geared rate that should reflect the return required by an investor for this particular property over the term of the cash flow.

Purchase and Sale Costs

The Shire's capital contribution (\$380,000 Country Local Government Fund) has been represented by the total construction cost less the grant funding received. The sale cost and terminal value have not been included as the asset will not be sold after the cash flow period.

Rest Period

The cash flow report has been based on annual payments made in advance. The rental income has been forecast to increase by 3% per annum over the cash flow period. Outgoings have been calculated based upon 1.5% of the buildings capital value. This percentage is

applied by the Shire for buildings that are tenanted and whereby tenants are responsible for outgoings such as power, water, cleaning etc.

Vacancy

The long-term vacancy factor (annualised vacancy rate) for this building in good repair has been determined from market analysis and the historical occupancy rate of similar buildings and is estimated to be 10% per annum.

5. TIMELINES AND REPORTING

a. Project Timeframe and Key Milestones

Item / Milestone	Expected Date of Finalisation	Responsibility
Availability of Land	30 June 2012	Landcorp/ Shire of Jerramungup
Detailed Design	30 June 2012	Shire of Jerramungup
Preparation of tender documentation	15 July 2012	Shire of Jerramungup
Award Tender	15 August 2012	Shire of Jerramungup
Construction commence	01 September 2012	Contractor
Construction complete	31 May 2013	Contractor
Opening	15 June 2013	Shire of Jerramungup

6. SUPPORTING DOCUMENTATION

1. Letter of support Lower Great Southern District Health Advisory Committee
2. Letter of support St Johns
3. Cost estimation
4. Concept design of Bremer bay Health Facility
5. Structure Plan: Bremer Bay Town Centre
6. ASX release: Status of Southdown Magnetite mine in Wellstead

7. RECOMMENDATION OF PROJECT

Signed

Signed

Completed by

Approved by

Position

Position

Organisation

Organisation

Date

Date