



Council Business Plan

Staff Housing Replacement and Seniors Independent Living

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1.0 Executive Summary

The Great Southern Development Commission has developed a regional business case and funding program called the Great Southern Housing Initiative to facilitate the development of housing projects within the Great Southern shires. The objective of the funding program is to address the shortage of quality and affordable housing in the region which is consistent with objectives in the Shire's Community Plan.

The Shire of Jerramungup has the opportunity under the funding program to build 4 houses in Jerramungup or Bremer Bay and 6 independent seniors housing units in Bremer Bay.

In Bremer Bay, the development of well-aged housing will complement recent the investment of \$1.7 million for the completion of the Bremer Bay Town Centre. WACHS is currently completing a business case to support the construction of the Bremer Bay Medical Centre which will also increase the local facilities available to support seniors.

At present the Shire owns the following number and types of residences

Type	Bremer Bay	Jerramungup
Independent Seniors Housing Units	6 Residences	6 Residences
2 Bedroom Units	0 Residences	3 Residences
3 Bedroom Houses	0 Residences	5 Residences
4 Bedroom Houses	1 Residence	5 Residences
Total	7 Residences	19 Residences

The Shire also owns 5 vacant residential blocks in Jerramungup and 1 vacant residential block in Bremer Bay. The utilisation of already owned blocks will be factored into the project as an in-kind contribution. The lack of land ownership in Bremer Bay is a barrier to making a significant improvement in rental availability there and this project will require the purchase of Lot 3 Yandil Street from Landcorp to facilitate the construction of the 6 independent seniors housing units. The Shire also has no houses in Bremer Bay which it could release to the private market or rent out to suitable long term tenants. Other options to improve affordable rental options for Bremer Bay are currently being developed but sit outside of the capacity of this project.

2.0 Historical Context

The Shire of Jerramungup has its primary administrative base in Jerramungup. It provides housing for a number of staff members, the police and the local doctor in order to facilitate attraction and retention. At present it has one property in Bremer Bay which is occupied by the Shire's Planner.

The cost of building singular houses in Jerramungup and Bremer Bay is high and can impact on the viability of private investment in the real estate market. The last time the Shire undertook a grouped construction of houses it was able to gain scale efficiencies by constructing 3 residences in 2010. There has only been 3 new houses built by the private market in Jerramungup since 2010. The building construction industry in Bremer Bay is a lot more active.

In addition to the cost of housing construction there is also a shortage of quality rental housing in both Bremer Bay and Jerramungup. This was raised through the development of the Shire's Community Plan as being a barrier for liveability and economic growth in the Shire. There is currently 1 property listed online for long term rent in Bremer Bay and no properties listed in Jerramungup. There are unoccupied houses in both towns however these are either in a dilapidated condition, owned and not rented by the State Government or utilised by owners for holiday houses.

3.0 Objectives

The main objectives of this development include:

- Renew the Shire's existing staff housing stock in Jerramungup.
- Sell existing Shire houses on the private market.
- Construct 6 Independent Seniors housing units in the Bremer Bay Town Centre.
- Relocate existing staff members to new staff housing in an equitable manner.

4.0 Land Tenure Conditions

The Shire currently owns a number of vacant lots within the Shire suitable for residential housing construction.

- 1) 12 Lancaster Road – Jerramungup
- 2) 9 Collins Street – Jerramungup
- 3) Lot 263 Collins Street – Jerramungup
- 4) Lot 264 Collins Street – Jerramungup
- 5) Lot 265 Collins Street – Jerramungup
- 6) 19 McGlade Close – Bremer Bay

In addition to the freehold lots owned by the Shire this Business Plan also recommends the acquisition of Lot 3 Yandil Street – Bremer Bay as it is appropriately zoned for independent seniors housing and is in close proximity to the future Bremer Bay medical centre. It is currently owned by Landcorp and this business plan considers that it will be sold to the Shire for a 10% discount on market value.

5.0 Legislative Implications

Section 3.59 of the Local Government Act 1995 places certain requirements on Local Governments when entering into commercial enterprises. This section of the act applies to this proposal as the development is defined as a major land transaction. Under this section of the Act, before a local government enters into a major land transaction the local government is to prepare a business plan.

The local government is required to give Statewide public notice stating that —

1. The local government proposes to commence the major trading undertaking or enter into the major land transaction described in the notice or into a land transaction that is preparatory to that major land transaction;
2. A copy of the business plan may be inspected or obtained at any place specified in the notice; and
3. Submissions about the proposed undertaking or transaction may be made to the local government before a day to be specified in the notice, being a day that is not less than 6 weeks after the notice is given;

After the last day for submissions, the local government is to consider any submissions made and may decide* to proceed with the undertaking or transaction as proposed or so that it is not significantly different from what was proposed.

* *Absolute majority required.*

6.0 Housing Solutions Provided

Under this project the following new residences are proposed for construction.

Address	Construction Type	Approx. Construction Budget
12 Lancaster Road	4 x 2 Executive House	\$557,000
Lot 265 Collins Street	2 x 1 Duplex	\$592,000
Lot 263 Collins Street	3 x 2 Residence	\$497,000
19 McGlade Close	4 x 2 Executive House	\$527,000
Lot 3 Yandil Street	Six - 2 x 1 Units	\$1,237,000
Total		\$3,410,000

Under this project the following residences are forecast for sale into the private market to assist housing supply under the provisions of Section 3.58 in the Local Government Act 1995. Market values would be ascertained by a certified valuer prior to advertising any property for sale.

Address	Construction Type	Forecast Sale Value
8 Derrick Street	3 x 2 Brick and Tile	\$150,000
20 Coral Sea Road	3 x 1 Brick and Tile	\$140,000
2 Coral Sea Road	3 x 1 Fibro	\$120,000
Total		\$410,000

7.0 Marketing Analysis

Demonstrated Demand

The Shire of Jerramungup regularly receives requests for assistance in providing housing to the public. The demand for residential tenancies in Jerramungup will remain strong while the town's occupancy is full and farm houses are being used to accommodate peoples housing needs.

This project does not seek to provide a direct operational role in providing community housing via rentals but it will release a number of older Shire houses for purchase in the private market. Alternatively if the properties are not sold they could be rented to the private market providing approximately \$10,000 per annum in rental return until a buyer is forthcoming.

At present the Shire has a management arrangement with Great Southern Community Housing to coordinate the allocation and tenancy of the existing 12 independent seniors housing units in Bremer Bay and Jerramungup. Great Southern Community Housing has advised that there is sufficient demand in Bremer Bay to fill an additional 6 units over the coming 2 years. Should the properties not be fully tenanted by independent seniors then arrangements could be put in place to offer them to other sections of the community requiring affordable housing. Great Southern Community Housing currently

provides this opportunity in other grouped housing developments to maximise property utilisation. This would need to be carefully managed to ensure there was no adverse impact on existing tenants.

Potential Demand

The continuing development of the Bremer Bay Town Centre will provide stimulus for further demand for housing in Bremer Bay. In addition to the new facilities and infrastructure being constructed the persisting trend for sea-change retirement will continue to see Bremer Bay as an attractive place to retire. The provision of additional independent seniors housing units will provide further housing supply to meet further demand.

8.0 Competition Analysis

The competition from the Shire's perspective is minimal. There are currently no other providers of independent seniors housing in Bremer Bay and the remainder of the project relates to the Shire's own employees.

9.0 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: Failure to achieve property sales identified in the business plan.

Likelihood = Possible

Consequence = Moderate

Risk Assessment = (7) Attention Required

Perhaps the greatest risk from the Shire's perspective is the overall development cost and the planned sale of 4 existing Shire houses to contribute to the capital costs.

In response, it is proposed that the Shire will advertise the properties for sale well in advance of the new houses construction. In addition the actual value of the loan funds withdrawn may need to be higher than identified in this business case to provide a

buffer against one or two properties not selling within the financial year. In addition the project and loan funding will be staged over two financial years to provide a longer time to execute sales.

Risk: Project cost increases as a result of poor estimating

Likelihood = Possible

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 lead local government will be managing the collective tender and procurement will provide an efficiency of scale in the project. In addition to this the proposed budget for each property is generous and can be scaled back to meet budgets by negotiating with the preferred builder. A fixed price contract will be utilised for the cost security of each property.

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 sufficient budgets and contingencies are included in the project budgets to allow for minor design changes to enhance the liveability of the properties.

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 Jerramungup 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 by the lead local government. This will increase the chances of the project being delivered on time and on budget. Provisions within the tender document can provide weighting for builders who utilise local contractors to retain value in the local community.

Risk: External funding commitments not achieved

Likelihood = Moderate

Consequence = Moderate

Risk Assessment = (7) Attention Required

With regard to funding, the Shire has been advised of funding by the Great Southern Development Commission. The Shire will be required to work with the other local governments who are a party to the regional project.

The Great Southern Development Commission is the major funding partner with \$2,522,674 allocated to the Shire of Jerramungup for this project. If the Shire is unsuccessful in meeting its own financial commitments under this funding program, the project in this scale would not proceed.

Given the Shire's current financial position and relatively low debt levels, shortfalls in funding to approximately \$328,000 can be offset by Shire loans. Funding has also been identified in the Bremer Bay Retirement Units Reserve and the Building Reserve to reduce the overall loan liability associated with this project. The replacement of staff housing has been identified in the Shire's current Long Term Financial Plan for 2020-2021. The Long Term Financial Plan is currently being reviewed following the adoption of the new Community Plan and adjustments can be made to the timing of new staff housing investment and associated grant income.

The Shire has an existing housing debenture from the 2010 project which will be retired in 2019 so there will only be a short term increase in total loan financing and repayment costs incurred. Current loan interest rates are also at low levels providing an opportune time for capital investment through debentures.

Conclusion

The major risk associated with this project is a failure to sell the existing Shire houses and an unforeseen escalation in construction costs. This will have a direct cash impact on the Shire's budget and result in project delays or additional loan funds needing to be drawn to finish the project.

This proposed method of staged development over two financial years will allow adequate cashflow to be provided based on the number of house sales. Cost escalation risks will be managed by issuing tenders for the project either in-house or through the regional group of Councils.

10.0 Financial Projection

The following table summarises the financial impact of the proposal.

Income / Expenditure	Total Budget
Total Construction Costs	\$3,410,000
Great Southern Development Commission Contribution	\$2,522,674
Council Construction Contribution	\$887,326
Offset by Sales	-\$410,000
Purchase of Lot 3 Yandil Street	\$240,000
Landcorp Discount on Lot 3 Yandil Street	-\$24,000
Building Reserve	-\$175,000
Retirement Unit Reserve	-\$95,000
Site works by own crew	-\$95,000
Loan Funds	-\$328,326
Net Balance of Council Funds	\$0
In Kind Contributions	
Land Value – 12 Lancaster Road	\$40,000
Land Value – Lot 263 Collins Street	\$40,000
Land Value – Lot 265 Collins Street	\$40,000
Land Value – 19 McGlade Close	\$130,000

11.0 Shire Strategic Plan and Finance Strategy Impact Statement

Addressing the existing housing shortage is contained within the Shire's Community Plan under Strategic Direction 2: Community – Aspiration 2.2 Improved Liveability.

2.2.8: Increased housing availability options (ownership, rentals, workers accommodation)

Replacement of staff housing has been identified in both the Shire's Long Term Financial Plan and the Corporate Business Plan. The financial contributions previously allocated to the projects did not include funding from external parties and accordingly this business case presents a better financial opportunity than what the Shire has planned for.

With regard to recurrent, maintenance and renewal costs associated with this project, there will be savings made over the coming 10 years as aging houses are replaced with newer houses. Currently the Shire spends between \$20,000 and \$60,000 annually on refurbishing the houses which are proposed to be sold due to the age of the residences. The two brick and tile houses proposed for sale (8 Derrick Street and 20 Coral Sea Road) are forecast to need new roofs, bathrooms and kitchens in the coming 5 years if

maintained as Council stock. 2 Coral Sea Road has been recently refurbished but will require new floor coverings and window treatments if it remains in Council ownership.

The 6 additional independent seniors' living units in Bremer Bay will be managed by an external provider and the income associated with their rental will be used to cover maintenance and operational costs by the external provider.

12.0 Review Position and Date

Chief Executive Officer to review on or before 30/6/2017

13.0 Associated Documents

- Great Southern Development Commission Business Case

CEO Authorisation: _____

Date: ___/___/_____