



Council Business Plan

Residential Land Development Sydney Street Jerramungup

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1.0 Executive Summary

The Shire currently has a residential accommodation shortage in the town site of Jerramungup that is having a significant impact upon the potential growth of the town. A large majority of the housing in town is occupied, as are the surrounding farm dwellings. The Shire continually receives requests from people for accommodation.

In response, the Shire proposes to develop and sell approximately 30 residential blocks in Jerramungup. It is anticipated that the proposed development will ease demand for residential dwellings within the town site.

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

In addition to fulfilling a legislative requirement under the Local Government Act 1995, this business plan for a major land transaction will also;

- Identify the level of demand and product characteristics required by the market.
- Identify the resources required and the Shire's capacity to deliver a major land transaction.
- Establish if a staged development is more appropriate given the level of demand, financial risk and organisational capacity.
- Investigate the upgrade of Sydney Street and the construction of Cutler Street
- Determine the extent to which the final product is delivered e.g. fencing, landscaping, drainage, kerbing etc.

Recommendations:

That Council

- 1. Receive the Council Business Plan – Residential Land Development Sydney Street Jerramungup.**
- 2. Give Statewide public notice stating that the Shire of Jerramungup proposes to enter into a major land transaction and that a copy of the business plan may be inspected or obtained at the Shire of Jerramungup, Vasey Street Jerramungup**

2.0 Historical Context

Given the shortage of residential land in Jerramungup, the Shire attempted to rezone reserve 27494 from recreation and open space to residential. This reserve was previously the old sporting oval.

Initially, the proposed rezoning was supported by a majority of stakeholders. However the Water Corporation intervened and expressed their concern over the proposed development. The rezoning was therefore declined by the Western Australian Planning Commission due to its proximity to the town's water catchment area.



Figure 1: Proposed rezoning of reserve 27494 at the Old Oval - Jerramungup

In response, the Shire shifted its focus to a portion of unallocated crown land in Sydney Street, Jerramungup. This land is subdivided and appropriately zoned for residential purposes.

The appropriate applications were made to State Land Services (SLS). In response, SLS commissioned a native title working party to assess the land. This assessment was completed in June 2009. The working party identified that no significant native title issues existed on the subject site.

In September 2009, the Shire received a taking order for the land in Sydney Street. A management order in favour of the Shire for the “use and requirements of the Shire of Jerramungup” was received on 8 September 2009.



Figure 2: Proposed land development in Sydney Street Jerramungup

3.0 Land Tenure Implications

The land on Sydney Street was previously unallocated crown land and is now under a management order in favour of the Shire of Jerramungup for the purpose of ‘use and requirements of the Shire of Jerramungup’. Given this tenure and under the State Governments Superlot Policy, the Shire can develop the land in stages and subsequently purchase the land from the State in order to meet demand.

The State Governments Superlot Policy seeks to facilitate regional development where demand can be demonstrated and a local government is prepared to undertake the development to meet local needs.

Under this policy, reservations and management orders are placed with local governments and are followed by sale. The sale price to local governments is generally unimproved market value.

The sale price can accommodate development costs such that the land is sold to the Shire at its subdivisional development value rather than its englobo value as would be the case with a private developer.

4.0 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 the proposed development in Sydney Street 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.*

5.0 Products and Services Provided

The proposed development is zoned for residential purposes and has already been subdivided. The management order that has been granted to the Shire of Jerramungup includes 35 blocks ranging in size from 900m² to 1100m². It is anticipated that approximately 5 blocks will be required for drainage purposes.

The blocks contain native vegetation and require servicing.

The final product that is delivered to the market will essentially depend upon the associated costs of this development. Various components need to be investigated such as lot configuration, drainage, associated infrastructure and the application of the Shire's development criteria.

Lot Configuration

Existing residential blocks in Jerramungup range in size from approximately 900m² to 1400m². From a residential perspective, this is considered large. As the proposed development has already been subdivided into lots that range from 900m² to 1100m², it is unlikely that this configuration will change through either an amalgamation or subdivision into further lots.

Drainage

The price of the proposed lots will largely depend upon a detailed development investigation undertaken by a consultant engineer. The proposed development will require a significant drainage solution. A report commissioned by the Shire in 2007 recognises that the development area contains a naturally occurring drainage system. It is anticipated that the number of lots yielded by this development will depend on a design to alleviate this drainage issue.

Associated Infrastructure

The major road that accesses the proposed development (Sydney Street) was constructed poorly approximately 5 years ago. The upgrade of Sydney Street requires incorporating into this project.

A secondary road that accesses the proposed development is Cutler Street. Although gazetted, this road has not been constructed and requires incorporating into this project.

Development Criteria

Of significance to this project is the Shire's role as a statutory body and the application of development conditions based upon the Shire's Subdivision Guidelines. Given the Shire's role in enforcing subdivision conditions, it would be hypocritical not to apply the Shire's minimum development standards to this project.

The extent to which the proposed development incorporates fencing, retaining walls, development of recreation and open space and landscaping will largely depend upon price sensitivity factors and the Shire being able to deliver a quality and affordable product to the market.

6.0 Marketing Analysis

Demonstrated Demand

The Shire of Jerramungup continually receives feedback that the demand for residential land in Jerramungup is significant.

Secondary data such as the very low vacancy rate of residential dwellings within the town site supports the theory that a sound customer base exists for this land release.

In an effort to gauge the level of demand for residential land, the Shire commissioned an Expressions of Interest process on Tuesday 13 October 2009. This process requested that interested people register their interest based upon the following information;

- The blocks range in size from approximately 900 – 1100sqm and are zoned residential under the Shire of Jerramungup Town Planning Scheme.
- It is anticipated that the blocks will cost between \$25k and \$40k. Final pricing will depend upon servicing and development costs.
- It is proposed that dwellings will need to be constructed within 24 months from settlement.

A modest response was received by the Shire to this expression of interest process.

Price Sensitivity

Perhaps the most significant consideration in releasing this land from a marketing perspective is price sensitivity.

It is well established that the cost to construct a residential dwelling in Jerramungup is up to 30% greater than other major regional centres or approximately \$300,000. Therefore, the final block price must not be excessive so that purchasers are forced to overcapitalise.

On completion, a new 4x2 residence in Jerramungup has been valued by a Certified Valuer at \$355k.

Access to Builders

The community's access to qualified builders is equally important in this marketing assessment. Given Jerramungup's proximity to Perth and Albany, builders have been remiss in travelling to Jerramungup to construct residential dwellings. In saying this, if enough demand is generated and economies of scale can be achieved, builders will travel to Jerramungup to construct residential dwellings.

Large builders such as WA Country Builders have indicated that they are willing to construct dwellings in Jerramungup on an ongoing basis if at least three dwellings are constructed simultaneously.

The developing transportable housing industry will also satisfy this marketing consideration.

7.0 Competition Analysis

The competition from the Shire's perspective is minimal. There are no other appropriately zoned significant portions of land within the town site.

8.0 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 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 uncertain demand for residential land in Jerramungup. From the preliminary investigations completed to date, it appears that the potential for the Shire to yield a profit from this development is non-existent. Additionally, a modest demand will not facilitate the entire development being completed at once.

In response, it is proposed that the Shire release the land in four distinctive stages with the land on Collins and Sydney Street being developed first. This configuration would allow the following release;

Stage 1 = 8 lots

Stage 2 = 7 lots

Stage 3 = 7 lots

Stage 4 = 8 lots

The Shire must construct and release the development in stages to minimise the initial outlay.

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 consultant engineer 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 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. This will increase the chances of the project being delivered on time and on budget.

Conclusion

The major risk associated with this project is the excessive development costs (approx \$1.3m) and the relatively moderate demand for residential land in Jerramungup. Current forecast suggests that the proposed 30 lot development in Jerramungup could satisfy local demand for at least 10 years. For this reason, and to minimise risk, it is proposed that the development is completed in 4 stages with 8 of the most cost effective blocks released in stage 1. This proposed method of development will ensure that holding and development costs are minimised over the life of the project.

9.0 Financial Marketing Analysis

The Shire of Jerramungup has commissioned an Albany based engineering consultant to provide a desktop estimate of the associated development costs. In making this preliminary assessment, the consultant has applied Albany contract rates and has ascertained that the entire development will cost in the range of \$1.1million to \$1.3million. This estimate includes;

1. Earthworks
2. Kerbing
3. Road pavement and seal
4. Power (not street lights)
5. Drainage (assuming underground drainage)
6. Water and sewer that can connect to existing services at the site.
7. No allowance has been made for authority charges for headwork's or upgrade of any infrastructure. Some hidden cost may arise if Water Corp

requires main upgrades or western power transmission or substation upgrades.

The total development cost per lot being approximately \$40k.

The success of this project will be determined by being able to deliver a product to the market that is cost effective and of a high quality. It is also important to ensure that the cost of purchase and then construction does not require purchasers to overcapitalise.

Given that a newly constructed 4x2 residential home in Jerramungup has been valued by a certified valuer at \$355k, this will allow for a reasonable construction allowance once a block has been purchased for \$40k.

10.0 10-Year Financial Projections

The 10 year financial projection is contained within the associated documents.

11.0 Shire Finance Strategy Impact Statement

The proposal for a self financing development on Sydney Street will not have a net impact on the 10 Year Financial plan as it will be financed externally by loans and the sale of land. Council will be faced with a greater loan liability and carry the risk of principal and interest repayments from municipal funds should blocks not sell. This risk has been minimised by staging this development across 10 years which can be extended depending on the demand for blocks.

12.0 Minister Intervention

As this development is a cost neutral exercise for the Shire of Jerramungup, an application will be made to the Minister for Regional Development to provide the lots to the Shire taking the development costs into consideration. As such, the land will be transferred to the Shire at its subdivisional development value rather than its englobo value as would be the case with a private developer.

13.0 Review Position and Date

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

14.0 Associated Documents

- Financial Statement
- State Government Superlot Policy
- Drainage Study

CEO Authorisation: _____ Date: ____/____/____