



INVESTMENT POLICY - PROPERTY

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1. OBJECTIVE

Council's property assets collectively have a significant role in supporting both service delivery to the community and the financial sustainability of Council.

In relation to Property this policy establishes a framework for establishing proper assessment criteria for:

- Acquisitions
- Development of property assets
- Divestments

It aims to support Council's strategic goals, generate additional revenue as an alternate source of income to Council, to minimise costs or to realise one-off or perpetual financial returns.

2. PRINCIPLES

Council will invest funds in accordance with legislative requirements and will adopt a prudent investment approach. Council and delegated officers have a fiduciary duty under the *Local Government Act 1995*, therefore risks must be kept to an acceptable minimum, particularly credit risk, with a reasonable return on investment generated whilst maximising opportunity, ensuring sufficient liquidity to meet all cash flow requirements and preserving the capital investment.

Type of Investments

When making decisions to invest in Property related investments one or more of the following criteria needs to be satisfied:

- i. Council may invest in land holdings that will have capital growth for future generations.
- ii. Council may invest in Commercial/Industrial Property which gives continuous source of ongoing returns and also have capital growth potential.
- iii. Council may engage in Re-Development activity that are greenfield or infill through:
 - creating development interests;
 - divest Council-owned operational land holdings; or
 - facilitate development of Council owned property assets.
- iv. Council investment in property must be considered within the following broad investment framework:
 - within close proximity to major infrastructure including public hospitals, transport, employment, retail and education;
 - purchase at Market Price or if special value is relevant the offer/sale price;
 - must be based on market driven rationale;
 - must be capable of providing reasonable commercial rental returns;
 - capital Works are to be restricted to value adding projects; and
 - tenants are carefully considered and properties are actively managed.
- v. Council may consider converting surplus property for reclassification and/or rezoning in order to be able to convert them to a development or divestment opportunity.
- vi. Council may invest in property to achieve key strategic goals of the Council that will deliver a broad based benefit to the community without financial return being the key driver.
- vi. Council may use its land holdings to leverage acquisition of other land critical to the orderly development of important urban or environmental areas.
- vii. Council may also include selling or development activity to generate returns to enable funding of the renewal and replacement of Community Infrastructure.

Return on Investment

In relation to property held for income generation and/or capital growth, the investment made should achieve a predetermined return on investment taking into account the market condition and risk profile.

2.1 Legislative Requirements

All property investments are to be made in accordance with:

- *Local Government Act 1995*, section 3.58, 3.59 and 6.20
- *Local Government (Functions and General) Regulations 1996*, Part 3 Commercial Enterprises by local governments

2.1.1 Proceeds from Property Investments

- 50% of net funds generated from disposal of commercial property will be placed in a Property Development Reserve to seed other property acquisitions or development projects.
- The balance of net funds generated from disposals of commercial property (50%) are to be placed in the Infrastructure Reserve for providing for changing Community infrastructure needs and to renew or replace existing Community Infrastructure.
- All net returns from Commercial Rental property be used for day to day municipal activities (as Recurrent Income).
- These allocations may be changed from time to time by Council Resolution.

2.1.2 Funding of Property Investments

- Funding requirements and options are to be addressed within the Business Plan for any Land Transactions and/or Disposition of Property where required.

2.2 Approval

Property investment/development opportunities will be presented to Council for consideration.

Further consideration of proposals would necessitate specific acquisition and divestment recommendations requiring necessary community consultation, Statutory Processes, Ministerial Approval and Council Resolution where appropriate.

2.3 Monitoring and Reporting

All property investments are to be appropriately recorded in Council's financial records.

An Annual review of the Property portfolio will be presented to Council which will report against identified risks, required returns on investment and strategic outcomes as well as reporting on investment priorities and divestment activities.

2.4 General Policy Guidelines

2.4.1 Classification of Property

Under this Policy, all property owned in freehold by the City will fall into one of the following four classifications which describe the primary purpose for which the property is held. Properties within each classification will not necessarily be static and may be re-classified following a review by the Council. Properties managed by the City under Management Orders have not been formally classified as these properties are all be considered to be held for Community Purposes.

It should be noted that whilst these classifications are intended to capture all property owned and managed by the City, it is recognised that not all property will fit exactly within these classifications (e.g. staff housing). Appropriate discretion therefore, will be used by the City when dealing with any such property (including hiring, leasing/licensing, liquidating etc.). Current City owned properties have been classified in the Inventory of City Freehold Property.

2.4.1 (a) Property held for Community Purposes

This classification includes property held for administration, operations, recreation, and/or infrastructure usage. Property held for Community Purposes will generally not be considered available for liquidation.

Where appropriate, consideration will be given to leasing improvements to not-for-profit community groups at a subsidised rental.

2.4.1 (b) Property held for Capital Appreciation

This classification includes property which are assessed as either undeveloped or underdeveloped, but which is not held for Community Purposes. Property held for Capital Appreciation will be developed for income where market conditions are favourable and the development risk is considered to be acceptable. Alternatively, these properties will be liquidated to advantage when market conditions are favourable. In general, income from any improvements should be maximised and property in this category will not be made available for community usage.

2.4.1 (c) Property held for Income Generation

This classification includes property where the maximisation of the income stream is considered to be the primary objective. Property held for Income Generation will be developed to the highest and best use of the site. Rentals will be set by reference to market levels, with regular reviews, depending on the circumstances. In general, subsidised rentals will not be considered for properties within this classification.

2.4.1 (d) Property held for Strategic Purposes

This classification includes property that is to be held and/or developed to achieve key strategic goals of the Council. Property held for Strategic Purposes will be held or developed to achieve one or more of the following purposes: economic development, local job creation, place activation or environmental protection/conservation. The acquisition, development or disposal of property in this classification will be subject to assessment of alignment with the City's Integrated Strategic Plan, Local Planning Strategy and other relevant strategic planning documents. While financial return on this category of property is important, it is not the sole reason for owning property in this class.

2.4.2 Risk Management

When considering a Property investment a Business case needs to be prepared identifying and quantifying Financial, Economic, Operational, Reputational and other associated risks.

2.4.3 Return on Investment

Council's Property Development Reserve is to be maintained so that a maximum return can be achieved Council's on commercial property interests. Funds not required for short term cash flow requirements can be invested in interest bearing deposits.

The performance of each property investment will be assessed against the associated risks of the investment comparative to the likely return on long term investments. For property held for income generation and/or capital appreciation return on investment will be required to ensure a return greater comparative to that of cash investments assessed over a period of no less than 10 years.

3. CONSEQUENCES

This policy represents the formal policy and expected standards of the Council. Appropriate approvals need to be obtained prior to any deviation from the policy. It is imperative that Councillors and Officers retain appropriate documentation to substantiate their expenditure. Elected Members and Employees are reminded of their obligations under the Council's Code of Conduct to give full effect to the lawful policies, decisions and practices of the Council.

4. ROLES AND RESPONSIBILITIES

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| CUSTODIAN | OFFICER RESPONSIBLE FOR IMPLEMENTATION |
| Manager Financial Services/CFO | Management Accountant |

5. REFERENCES TO RELATED DOCUMENTS

- *Local Government Act 1995*
- *Local Government (Financial Management) Regulations 1996*
- *Local Government (Functions and General) Regulations 1996*
- *Land Administration Act 1997*
- City of Karratha - Delegated Authorities Register – 18 'Power to invest' CEO delegation
- City of Karratha - Annual Budget
- City of Karratha - Annual Report

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| Next Review: | September 2018 |
| Responsible Officer: | Manager Financial Services/CFO |

This Policy takes effect from the date of adoption by Council and shall remain valid until it is amended or deleted.