
Cessnock City Council

Property Investment & Development Policy

Date Adopted: **12 December 2018** Revision: **2**

1. Policy Objectives

The objectives of this policy are to provide an additional income stream in order to reduce the burden on rate revenue and other statutory income-producing activities of council through;

- The acquisition, disposal, investment in, leasing of, and maintenance to a balanced portfolio of property investments ensuring maximum capital growth, a recurrent income source and the financial capacity to further invest and develop;
- Encouraging development of existing Council land including reclassification, rezoning, subdivision and construction;
- Undertaking entrepreneurial activities that include joint ventures, and acquisition of parcels for redevelopment and sale to benefit from upwardly moving property markets;
- Facilitating the effective management of Council's property investment assets to complement the existing financial investment policy;
- Ensuring that all Council investment property related activities occur within legislative frameworks; and
- Establishing the principles of probity, equity and transparency in Council's investment property-related activities.

2. Policy Scope

This policy applies to the acquisition, development, management, investment, disposal, reclassification, rezoning and the undertaking of entrepreneurial activities of properties referred within Council's Policies and Guidelines as Investment Property, and held within a separate Property Investment Fund.

Property investment activities will be undertaken in accordance with Council's Delivery Program & Operational Plan and reflect Council's ongoing commitment to achieving financial sustainability.

3. Policy Statement

The guiding principles of this Policy are to ensure maximum financial return is achieved by:

- Managing the investment properties portfolio, and the proceeds generated from property investment, development and construction activities, as part of a Property Investment Fund;
- Achieving best value for money;

- Ensuring transparency in all processes so that all information is available for scrutiny;
- Demonstrating accountability through best use of Council resources; and,
- Monitoring portfolio performance and regularly reporting to Council.

4. Principles for Property Investment and Development Statement

4.1. Probity

Council has two distinct roles in its property activities;

- As the developer seeking the best possible return for its property; and
- As a statutory authority responsible for the assessment and approval of any Development Application for the property. Council must exercise particular care to ensure its roles as consent authority and as a developer are kept separate and are seen to be separate.

In order to ensure probity in its property investment and/or development activities, Council will establish a formal governance structure (including project management and contract management) for any significant land development projects that it undertakes.

Council will not acquire any property from or dispose of any property to any Councillor, employee or consultant of the Council who has been involved in any process related to a decision to acquire or dispose of the property and/or the establishment of a reserve price.

4.2. Investment and Development Funding and Outcomes

Council has establish a Property Investment Fund for its property investment activities.

Any income received from property held within the Property Investment Fund will be distributed within the following parameters:

4.2.1 In accordance with Section 32(5) of the Local Government Act 1993, "the net proceeds of sale by a council of any land dedicated in accordance with a condition imposed under section 94 of the Environmental Planning and Assessment Act 1979 must be dealt with under that section as if those net proceeds were a monetary contribution paid instead of the dedication";

4.2.2 The Property Investment Fund reimburses any expenditure incurred from Council's General Fund such as legal, survey, valuation, marketing and research required for the conduct of property investment activities and the generation of income from such activities

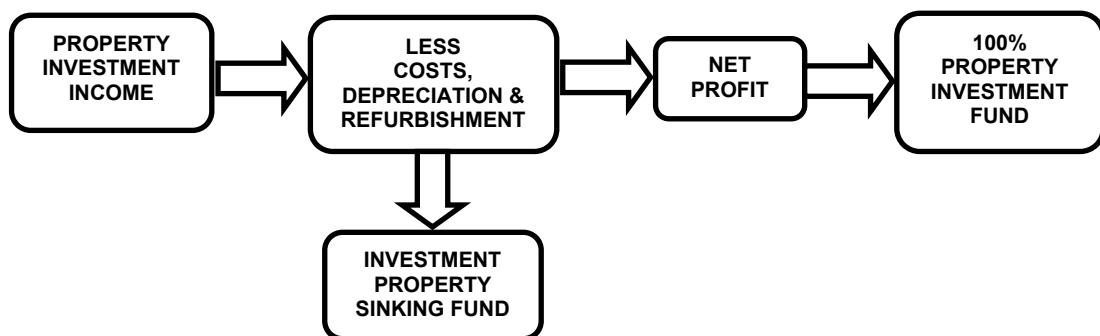
4.2.3 The balance of the Property Investment Fund should be invested:

- 4.2.3.1 In accordance with the principles set out under Section 10 of the Property Management Guidelines, as shown in 4.2.4 below;
- 4.2.3.2 As part of the pool of funds invested by Council and available at call to be utilised for investment or for the purchase of investment properties;

- 4.2.3.3 In property development projects and/or property investment purchases that will generate either viable short-term cash flows or long-term capital gains or both;
- 4.2.3.4 In income producing activities and/or business investments (including investment funds and/or listed property trusts that comply with the Minister's order under Section 625 (2) of the Local Government Act 1993) that will generate either viable short-term cash flows or long-term capital gains or both.

4.2.4 The net return on investment generated from the Property Investment Fund will be re-invested back into the Fund.

4.2.5 The distribution of funds received from Council's Property Investment portfolio is to be in accordance with the following;



4.2.6 The overall mix and nature of Investment properties will provide a balanced source of income and complement existing financial holdings;

4.2.7 Priority will be given to projects with a positive effect on investment returns without imposing on short term cash availability; and

4.2.8 All property investment activities will be undertaken in accordance with Council's operational plan and will reflect Council's ongoing commitment to sustainability.

4.3. Investment and Development Strategy

4.3.1. Council's requirements as a potential developer and/or investor are similar to any other investors in the market. Accordingly, property investment and development decisions should consider the following when reporting to Council;

- 4.3.1.1. Returns (profits) on funds employed;
- 4.3.1.2. Risks associated with the proposal;
- 4.3.1.3. Locality of the development and/or investment;
- 4.3.1.4. Current market trends and conditions;
- 4.3.1.5. Market demand for and supply of the type of property;
- 4.3.1.6. Security of income;
- 4.3.1.7. On-going costs; and
- 4.3.1.8. Appropriateness of the property and its use as an asset owned by a public authority.

4.3.2. Property investment and/or development opportunities must be assessed in accordance with the following criteria;

- 4.3.2.1. Provide a greater return than being obtained on invested funds;
- 4.3.2.2. Take account of market supply and demand, realistic development potential, capital growth, secure income, and potential increase in resale value;
- 4.3.2.3. Allow Council to set high development standards as an example to other developers; and
- 4.3.2.4. Provide scope to increase return if certain alterations, renovations and/or reclassification and rezoning are made.

4.3.3. Council will pursue a property investment and development strategy based on the principle of diversification, in terms of property types and/or locations. This may include investment in property outside the Shire boundaries.

4.4. Investment and Development Activities

Investment and Development Activities (I&D Activities) are those relating to the use and development of Council's Property Investment Fund properties including subdivision, development, redevelopment, construction, sale, purchase, leasing, rezoning and/or reclassification, as well as joint venture developments.

4.4.1. The following principles are critical to Council's approach to I & D Activities;

- 4.4.1.1. A range of investments including residential, commercial and industrial can be considered and must be notified by order of the Minister for Local Government in accordance with section 625(2) of the Local Government Act, 1993;
- 4.4.1.2. Council's I & D Activities should achieve a profit in line with the Risk Determination Matrix as detailed within this document;
- 4.4.1.3. Council is accepting that the market acknowledges "the higher the risk the higher the return". However, Council's property I & D activities should ensure that where higher risk exposure occurs there must be a maximum certainty of return. Risks associated with the proposal must be holistically assessed at the planning phase to ensure balancing of Council's various objectives;
- 4.4.1.4. In carrying out any property development Council must set standards that can be used as models for development, especially in development activities not detrimentally affecting the surrounding environment;
- 4.4.1.5. Leasing of investment property is to be managed under the following arrangements;
 - 4.4.1.5.1. Through an external real estate agent to ensure probity and legislative requirements are met;
 - 4.4.1.5.2. To the open market for a commercial rate of return;
 - 4.4.1.5.3. Fully maintained by the lessee as appropriate and to legislative requirements; and
 - 4.4.1.5.4. Inspected on a quarterly basis by Council's external agent to ensure lease conditions are being met.

4.5. Risk Determination Matrix

All Investment and Development activities will provide a return on investment greater than achievable cash rates at any given time. The level of risk of any investment or development must be assessed against the Risk Matrix detailed as below:

Level of Risk	Benchmark Above 90 Day Bank Bill Swap Rate* (BBSW).
Low	<2%
Medium	5% to 10%
High	15% to 20%
Entrepreneurial	> 20%

*The **Bank Bill Swap Rate** is a short-term interest rate used as a benchmark for the pricing of Australian dollar derivatives and securities.

Definitions:

Low – Easily invested with immediate withdrawal availability.

Medium – Readily developable or saleable with no restrictions in a definable time frame.

High – Reflects most property development opportunities, unless Entrepreneurial.

Entrepreneurial – Specified opportunity within pre-arranged parameters.

4.5.1. In determining the level of risk Council is to consider the following, as a minimum,

- Council experience in the proposed type of development
- Nature of tenancies
- Funding sources
- Term asset is to be held
- Recent precedence.

4.5.2. When determining the level of return to a property investment both the capital growth and annual return will be accumulated.

4.6. Review and Audits

4.6.1. Council will regularly review and audit:

- 4.2.8.1 The performance of its investment portfolio and use the information derived to determine when and how to preserve or increase each non-operational property's value and usefulness, or otherwise dispose of individual properties; and
- 4.2.8.2 Its property investment and development strategy and ensure that its strategy is "matching with market trends" and able to recognise and exploit investment opportunities as they arise.

5. Policy Administration

Business Group:	Strategic Planning
Responsible Officer:	Strategic Planning Manager
Protocol Review Date:	Three (3) years from date of adoption unless legislated otherwise
File Number / Document Number:	DOC2018/063559
Protocol Number:	
Relevant Legislation:	<ul style="list-style-type: none"> • Local Government Act, 1993 • Local Government (General) Regulation, 2005 • Land Acquisition (Just Terms) Compensation Act, 1991 • Roads Act, 1993 • Real Property Act, 1900 • Conveyancing Act, 1919 • Minister for Local Government's Investment Order • Residential Tenancies Act 2010 • Retail Leases Act 1994 • Valuation of Land Act 1916 • Environmental Planning & Assessment Act 1979 • Crown Land Management Act 2016
Related Policies / Protocols / Procedures	<ul style="list-style-type: none"> • Property Management Policy • Property Management Guidelines • Major Capital Projects Governance Policy • Investment Policy

6. Policy Authorisation

Code	Authorisation	Role(s)
	<p>The functions that are set out within and authorised by adopting this policy.</p> <p>Execution of the policy is subject to delegations as established by the relevant legislation.</p> <p>Policy implementation starts with Project Manager Strategic Property Review and escalates in line with delegations.</p>	<p>The role(s) authorised to perform the said function:</p> <ul style="list-style-type: none"> • Project Manager – Strategic Property Review • Strategic Planning Manager • Director of Planning and Environment • General Manager
	<p>Manage all breaches under this policy. Review and determine any potential breaches or complaints under this policy and refer them to Council's Code of Conduct Coordinator if needed.</p>	<p>The role(s) authorised to perform the said function:</p> <ul style="list-style-type: none"> • General Manager

7. Policy History

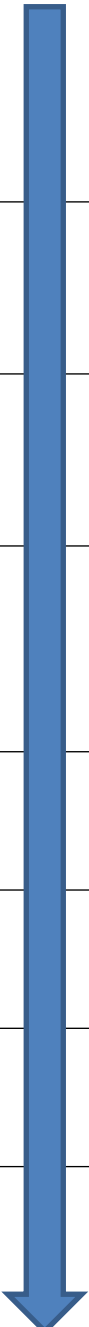
Revision	Date Approved / Authority	Description of Changes
1	2014 DOC2014/053986 - Superseded	New policy adopted
2	September 2017	Periodic review
3	12 December 2018 (PE90/2018)	Major review

8. Appendices

8.1 Appendix 1 - Council Process Flow Chart

8.1. Appendix 1 - Council Process Flow Chart

The following provides an indicative flow table of the operational process for the acquisition, disposal, development, or entrepreneurial investment for Property Investment Fund property.

	Acquisition	Disposal	Development	Entrepreneurial
	<ul style="list-style-type: none"> List potential acquisitions from policies, strategies and plans 	<ul style="list-style-type: none"> Identify surplus Council land 	<ul style="list-style-type: none"> Formulate development opportunity 	<ul style="list-style-type: none"> Identify funding stream
	<ul style="list-style-type: none"> Arrange Project team Identify Strategic properties 	<ul style="list-style-type: none"> Obtain in principle resolution to sell from Council 	<ul style="list-style-type: none"> Identify funding stream 	<ul style="list-style-type: none"> Seek authority from Council
	<ul style="list-style-type: none"> Identify funding stream 	<ul style="list-style-type: none"> Arrange reclassification 	<ul style="list-style-type: none"> Obtain in principle resolution to develop from Council 	<ul style="list-style-type: none"> Identify investment opportunity
	<ul style="list-style-type: none"> Obtain in principle resolution to acquire from Council once funds sourced 	<ul style="list-style-type: none"> Arrange report to Council 	<ul style="list-style-type: none"> Arrange reclassification and/or rezoning 	<ul style="list-style-type: none"> Undertake valuation
	<ul style="list-style-type: none"> Undertake valuation 	<ul style="list-style-type: none"> Undertake valuation 	<ul style="list-style-type: none"> Undertake development 	<ul style="list-style-type: none"> Make offer Negotiate contract
	<ul style="list-style-type: none"> Make offer Negotiate contract 	<ul style="list-style-type: none"> Formulate sale terms & marketing 	<ul style="list-style-type: none"> Undertake valuation 	<ul style="list-style-type: none"> Undertake development
	<ul style="list-style-type: none"> Exchange contracts 	<ul style="list-style-type: none"> Arrange agent 	<ul style="list-style-type: none"> Formulate sale or lease terms & marketing 	<ul style="list-style-type: none"> Undertake valuation Arrange agent
	<ul style="list-style-type: none"> Council Report 	<ul style="list-style-type: none"> Exchange contracts Council Report 	<ul style="list-style-type: none"> Arrange agent Finalise lease/sale documents Council report 	<ul style="list-style-type: none"> Formulate sale or lease terms & marketing Council report