



AGENDA

PROPERTY AND INVESTMENT ASSETS COMMITTEE MEETING

This meeting is not open to the public. All recommendations of these committees are referred to council.

**COMMITTEE ROOM
241 ROKEBY ROAD, SUBIACO**

TUESDAY, 5 DECEMBER 2017

COMMENCEMENT: 12:00PM

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1. DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

2. ELECTION OF PRESIDING MEMBER AND DEPUTY

Members of the Committee are to elect a presiding member amongst themselves in accordance with schedule 2.3, Division 1 of the Local Government Act 1995 (*Clause 5.12, Part 5, Division 2 of the Local Government Act*).

Election of Presiding Member

The CEO is to call for nominations for the office of Presiding Member. Nominations for the office are to be given to the CEO in writing.

If a Councillor is nominated by another Councillor, the CEO is not to accept the nomination unless the nominee has advised the CEO, verbally or in writing, that he or she is willing to be nominated for the office.

Committee members are to vote on the matter by secret ballot as if they were voting at an election.

Election of Deputy Presiding Member

The Committee is to elect a committee member (other than the Presiding Member) to fill the office.

The election is to be conducted by the Presiding Member or if he or she is not present, by the CEO. Nominations for the office are to be given to the person conducting the election in writing.

If a Councillor is nominated by another Councillor, the person conducting the election is not to accept the nomination unless the nominee has advised the person conducting the election, verbally or in writing, that he or she is willing to be nominated for the office.

Committee members are to vote on the matter by secret ballot as if they were voting at an election.

3. ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE**4. OBSERVERS TO THE MEETING****5. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS**

That the minutes of the Property and Investment Assets Committee meeting held on Thursday, 7 September 2017 be confirmed.

6. DISCLOSURE OF INTEREST**7. PRESENTATIONS/REPORTS****VERBAL UPDATE – PROPERTY PORTFOLIO**

Officers to provide a verbal update on the Property Portfolio.

P1 BUSINESS PLAN – ACQUISITION OF PROPERTY***REPORT FROM DIRECTOR CORPORATE SERVICES**

Author: Manager Commercial Services and Economic Development , Luke Willcock
Date: 28 November 2017
File Reference: A/4655
Voting Requirements: Absolute Majority - 7 elected members required to vote in favour

OFFICER RECOMMENDATION**That Council:**

1. In accordance with Section 3.59 of the Local Government Act (1995) and having considered submissions made in response to the advertised public notice, resolves to proceed in accordance with the *Business Plan - Proposed Major Land Transaction - Acquisition of Investment Property - August 2017*.

Background

At its meetings in November 2016 and February 2017, Council considered the performance of the investment property portfolio and revaluated its strategic intent for its portfolio with the objective of increasing returns. The adopted mechanism to achieve this is to divest underperforming assets and reinvest these funds into higher performing assets.

Amendments to the City's policy "*10.9 Property and Investment Assets*" were drafted to reflect Council's strategic direction and guide future decisions in relation to its property portfolio. These amendments included setting criteria for target property acquisitions and the parameters under which Council would consider acquisitions. The amended policy was adopted by Council at its meeting on 23 May 2017. At the same meeting Council noted the process to be undertaken to acquire new investment property in accordance with that amended policy.

Prior to deciding to purchase new investment property, compliance with the City's statutory obligations as set out in Section 3.59 of the *Local Government Act 1995* (the Act) is required.

A Business Plan was prepared to meet the requirements of Section 3.59 of the Act and reflects the City's policy position and agreed process (see Attachment 1). The Business Plan was advertised for the requisite 6 week period and this report is provided so Council may consider whether to proceed or not proceed with the acquisition of investment property in accordance with the Business Plan, having considered the comments received during the public submission period.

Proceeding with the major land transactions in accordance with the Business Plan does not commit Council to any purchase. Each property acquisition will also be the subject of a business case and a separate Council report prior to making any final decision to purchase.

Comment

At its meeting held on 23 May 2017 Council noted the process to be undertaken to acquire new investment property in accordance with its Policy 10.9 Property and Investment Assets.

The recommended approach seeks to add to the City's investment property portfolio whilst applying good governance, ensuring transparency with the community and delivering the best possible commercial outcome for the City, generating increased investment returns to fund asset renewal/development and fund activities set out in its Strategic Community Plan.

Council has endorsed performance measures for the property portfolio and new acquisition targets have also been set. These include a hurdle rate, that the total investments is not to exceed \$22.5M and that no one property should comprise more than 15% of the portfolio.

The Business Plan has been developed and advertised in accordance with the Local Government Act and been the subject of legal advice that confirms it addresses the requirements of the City's statutory obligations and alleviates the non-commercial aspects of the property acquisition process. Once its statutory obligations are met, the City can proceed with identifying acquisitions and negotiate land transactions in accordance with the parameters of the Business Plan, conditional on final Council approval for each acquisition. It allows Council to consider acquisitions and complete negotiations and land transactions in a timely way, in line with expectations of the commercial sector.

In accordance with Section 3.59 of the Act, the Business Plan is to include an overall assessment of the proposed major land transaction and is to include details of:

- (a) *Its expected effect on the provision of facilities and services by the City;*
- (b) *Its expected effect on other persons providing facilities and services in the district;*
- (c) *Its expected financial effect on the City;*
- (d) *Its expected effect on matters referred to in the City's forward plan;*
- (e) *The ability of the City to manage the performance of the transaction; and*
- (f) *Any other matter prescribed for the purpose of the relevant subsection.*

The Business Plan advertised stated the following:

- that the City intends to purchase properties for a common purpose over the next 2 years,
- those properties will be to a maximum total value of \$22.5 million, funded from the Capital Investment Reserve,
- there are no direct effects expected on existing services and facilities provided by the City, or on other persons providing facilities and services within the City.
- the projected improved income returns will provide the City with an opportunity to generate additional revenue to fund the asset renewal gap and finance activities set out in its Strategic Community Plan.
- the transaction is not expected to have any impact on the normal operating revenues of the City;
- that the City has the experience and capacity to manage such purchases either internally or through external agents such as valuers, lawyers and real estate professionals.

In addition, Council will have the final decision on whether a property will be acquired and the Business Plan specified that any offer made will be conditional on Council resolving to proceed with that specific transaction.

The City advertised the proposed major land transaction seeking public submissions on the Business Plan for the requisite 6 week period commencing Wednesday 30 August 2017.

At the close of the public submission period on Wednesday 11 October 2017 two submissions had been received.

These submissions are enclosed in their entirety as confidential attachments (see Attachment 2).

Once Council has considered these public submissions it can then decide (by absolute majority) whether to proceed with the proposed major land transaction, noting that each individual acquisition proposal will be subject to a Business Case assessment and a Council decision prior to proceeding.

A summary of the main issues raised in each of the submissions is below:

Investment outside the City of Subiaco boundaries

Both respondents expressed concern that the City was considering investing in property outside the City's boundaries. They perceived that investing in property outside the City would be at the expense of the economic development benefits of owning property within the City.

The acquisition program set out in the Business Plan does not prevent the City from considering the purchase of investment property within the City's boundaries, however it does allow for the consideration of investment properties from outside its geographic boundaries, provided those properties meet the target criteria and hurdle rate.

Restricting target properties to within the City's boundaries would likely make it difficult to find suitable property acquisitions due to the limited pool of properties available in Subiaco that would meet the City's target hurdle rate and risk profile. Due to the change in land use over time within the city there are more residential and mixed use spaces being created rather than commercial. Mixed use spaces are not currently planned to be targeted by the City as investments. Properties within the City of Subiaco boundaries could also cause a conflict between an investment approach and planning decisions, if both issues require decisions on the same property owned by the City.

The role of the City's investment portfolio in the City's long term revenue strategy is to provide an ongoing income stream. Currently about 10% of the City's operating revenue can be attributed to the City's property investment portfolio. That income is then used to fund core activities of the City such as the asset renewal and economic development activities. Restricting the City's investments in property to solely within the City's boundaries may lead to the acceptance of poor returns and jeopardise the City's long term revenue strategy. This may mean less funds available to the City in the future for other activities and, given the City's limited revenue sources, may result in that impost shifting to ratepayers.

Use of ratepayer funds

Both respondents were concerned that the acquisition of assets was being funded through revenue raised from rates.

Purchase of investment property is not funded from rates revenue, but using funds from the existing Capital Investment Reserve which holds the following investment funds:

- *the existing Capital Investment reserve*
- *proceeds of any sale of investment land or other long-term investment assets*
- *the City's share of the net surplus from the Subi Centro project, and*

The majority of funds in the Capital Investment Reserve consist of proceeds from the sale of the City's investment properties.

The purpose of the Capital Investment Reserve is established under the Local Government Act and described in section 5 of Policy 10.9 as follows. Funds held in the Capital Investment Reserve are to be "*used only for the purchase of other investment assets (whether property or other assets) or redevelopment and renewal of existing investment assets in accordance with specific resolutions of Council.*"

Investment for the primary purpose of generating an income return

One of the respondents expressed concern that investing in property was not the City's "core business" and that investing in property represents a greater risk than other investment options.

The City has held a portfolio of real property for the principal purpose of generating revenue for many years. It has developed a Commercial Services branch with specialist skills dedicated to the management of that property portfolio. Together with the Property and Investment Assets Committee (PIAC) of Council the focus of the city is on maximising returns from its investment properties.

The City previously had a long-held position that it would be a reluctant seller of its investment property. Examination of the return from its investments, together with the need to make up a revenue shortfall as a result of the City of Perth Act, motivated the PIAC and Council to focus on strategies which would increase the return from its investment properties. For example, the City sold the poorly performing Hay Street site with the intent that those proceeds be used to purchase another investment asset or assets with better income prospects. The site sold at auction for \$13M and these proceeds are held in the Capital Investment Reserve. The Business Plan outlines how the City intends to acquire new investment assets to replace the income-generating assets it has sold.

The city is restricted in its investment options and can principally invest in either cash deposits or real property. The current cash deposit rate for the City sits at around 2.25%. It is intended that the investment portfolio achieve returns significantly in excess of the cash rate in order to free up funds for reinvestment in the city's core activities.

Investment in real property, whilst does attract some level of risk, can deliver the desired higher return. In order to mitigate that risk the City has set parameters for new acquisitions representing an appropriately conservative approach.

In order to ensure that the City's investments are diversified, Council has set a range for individual new investments at 15% of the value of the total portfolio. This ensures that the price paid for any single property should not exceed more than 15% of the value of the City's total investment portfolio at that time (which currently has a value of \$173M). In addition, the Business Plan sets out that the total value of all acquisitions within the next two years is not intended to exceed the sum of \$22.5 million.

The Business Plan also sets out the ideal criteria for a target acquisition. These criteria have been developed to reduce risk of over-exposure in a location or asset type.

Suggested alternatives

One respondent proposed an alternative use of the funds to rejuvenate Subiaco through the purchase and development of land to provide an attraction for locals and visitors.

The other respondent believed that property investment should be driven by "economic development and positive social outcomes" rather than maximising returns and proposed that investing in cash was preferable to investments outside the City.

The City's *Policy 10.9 Property and Investment Assets* guide the City in the management of its investment properties. The City's policy position is that investment properties should be put to the highest and best use for the site and income or disposal proceeds from these properties should be maximised. It also holds as a general principle that the City will not undertake complex development projects over its investment properties in its own right.

To trade-off an income generating asset in exchange for solely economic development or social outcomes should be considered with caution as there are likely to be long term effects on the City's forward revenue stream leaving problems for future generations. If investment funds are spent to acquire land and building assets which do not generate income there would also be the potential for increased costs for maintenance and renewal in the future.

A more financially prudent approach is to set aside the income generated from the Investment Portfolio for investment into economic development activities thus providing for a more financially sustainable future.

Recommendation

The Business Plan prepared and advertised stated that over the next 2 years, the City intends to purchase one or more properties that meet the parameters specified, for the common purpose of growing and diversifying its property investment portfolio.

The Business Plan reflects the City's stated objective to increase returns from its investment portfolio and is consistent with the City's *Policy 10.9 Property and Investment Assets*.

The clear purpose of Section 3.59 is to establish that a proposed major transaction will not compromise the ability of the local government to deliver its core functions and provide opportunity for the community to make comment on the proposal.

The Business Plan has assessed the impact of the transaction on the City's operations, the City's ability to manage the transaction, as well as whether it will adversely affect any private businesses. It concluded that:

- There are no direct effects expected on existing services and facilities provided by the City, or on other persons providing facilities and services within the City.
- The major land transaction is not expected to have any impact on the normal operating revenues of the City.
- The projected improved income returns will provide the City with an opportunity to generate additional revenue to fund the asset renewal gap and finance activities set out in its Strategic Community Plan.
- The City has qualified and experienced staff with the ability to manage the proposed transaction. This will be enhanced by the engagement of external agents such as professional property agents, valuers, lawyers and consultants as required.

It is recommended that, having considered the two submissions made in response to the advertised public notice, and that the matters raised have been clarified and addressed above, Council resolves to proceed with the major land transaction and acquisition of property in accordance with the Business Plan.

Consultation

The public community consultation process and submissions received are discussed in the body of this report.

It should also be acknowledged that the Business Plan did attract some media coverage during the 6 week submission period, which generated further community discussion. This additional interest did not result in any further submissions and it should be noted that the community discussions cannot be considered as submissions under the statutory process prescribed by Section 3.59, the sentiments expressed were broadly similar to those raised in the two submissions received and addressed in the comment section of this report.

In addition, the acquisitions process and the Business Plan has been the subject of legal advice to ensure that they meet the city's statutory requirements.

Strategic Implications

Management of the City's investment properties is aligned with the Strategic Community Plan and Corporate Business Plan, with particular reference to the strategies and actions below:

Strategic Community Plan
Focus Area Six - Council Leadership
<i>Objective One: A leading council that is supported by an excellent organisation</i>
<i>Strategy 6.1.5: Create organisational and community culture that is underpinned by financially sustainable practice</i>
Corporate Business Plan Action
<i>Manage the City's commercial property portfolio to produce a sustainable income stream.</i>

Statutory and Policy Considerations

Statutory Considerations

In considering the acquisition of property the City must ensure it complies with Section 3.59 of the *Local Government Act 1995* (the Act) which is concerned with major land transactions.

Regulation 8A of the *Local Government (Functions and General) Regulations 1996* defines the value at which a land transaction becomes a “major land transaction” as being (in the case of the City) the lesser of \$10 million or 10% of the operating expenditure incurred by the City from its municipal fund in the last completed financial year.

It is likely any acquisition by the Council in a significant new asset meeting the appropriate criteria will be in excess of the Major Land Transaction threshold, currently set at \$3.8M.

In accordance with Section 3.59 of the *Local Government Act 1995*, before the City enters into a major land transaction it must prepare and seek public submissions on a Business Plan.

The Act also requires the City to give State wide public notice stating that –

- i. it proposes to enter into the major land transaction described in the notice.
- ii. a copy of the Business Plan may be inspected or obtained at any place specified in the notice; and
- iii. submissions about the proposed transaction may be made to the City before a day to be specified in the notice, being not less than six (6) weeks after the notice is given

and requires that the City makes a copy of the Business Plan available for public inspection in accordance with the notice.

Once Council has considered any public submissions, it may then resolve to proceed with the major land transaction, in accordance with the Local Government Act, the voting requirement for this decision is by absolute majority.

Policy considerations

The City's *Policy 10.9 Property and Investment Assets* guide the City in the management of its investment properties. The City's policy position is that investment properties should be put to the highest and best use for the site and income or disposal proceeds from these properties should be maximised. It also holds as a general principle that the City will not undertake complex development projects over its investment properties in its own right.

The policy provides the City with the ability to take advantage of alternative investment opportunities, for example by ensuring that capital can be released from underperforming assets in order to acquire better-performing assets.

The acquisitions process proposed is in accordance with the *Policy 10.9 Property and Investment Assets*.

Risk and Asset Implications

Investing in property rather than the City's funds remaining in cash, carries with it some level of risk, however by having in place a clear process and criteria for the acquisition of investment property assets the risks associated with the decisions in relation to the property portfolio are minimised.

The proposed process allows the City to refresh its assets by divesting of older assets and reinvesting in newer assets and thus potentially reduce the maintenance burden on the City and increasing investment returns.

Financial

The process will support the objectives to deliver greater financial returns to the city through better management of its property portfolio and improved performance.

The City has recently sold some of its underperforming assets and the proceeds of sale have been placed in the City's Capital Investment Reserve and held to be utilised to enhance the City's investment property holdings through investment in other investment property or the redevelopment and renewal of existing investment assets.

Social and Environmental Implications

There is an opportunity that increased returns on the City's investment assets can be reinvested into Social and Environmental assets as identified through an asset gap process.

Attachment/s

Attachment 1 – Business Plan – Acquisitions August 2017

Attachment 2 – Public submissions - CONFIDENTIAL

8. MEETING CLOSED TO PUBLIC**OFFICER RECOMMENDATION**

That the meeting be closed to the public for the purpose of discussing items P2 and P3 as it is required that these matters be dealt with behind closed doors under section 5.23 (2) (d) of the *Local Government Act 1995*.

P2 2 UPHAM STREET – OPERATIONS CENTRE - OPTIONS – CONFIDENTIAL*

P3 55 SALVADO ROAD, SUBIACO - OPTIONS – CONFIDENTIAL*

9. CLOSURE OF MEETING