

ITEM 9 DRAFT COMMERCIAL PROPERTY FRAMEWORK 2023

The Commercial Property Strategy was adopted by Council on 30 November 2015 and was developed to provide a governance framework for the management of Council's property assets and related transactions. This report follows a mini review of this Strategy and recommends minor changes for adoption including renaming the document, Commercial Property Framework .

RECOMMENDATION

Council notes the information contained within this report and endorses the revised Commercial Property Framework.

REPORT AUTHORISATIONS

Authorised by: Kerry Hunt, General Manager (Acting)

ATTACHMENTS

- 1 Council Report and Commercial Property Strategy endorsed 30 November 2015
- 2 Revised Draft Commercial Property Strategy 2023

BACKGROUND

The Commercial Property Strategy (the Strategy) was initially endorsed by Council on 30 November 2015.

The initial purpose for the Strategies development was to provide a framework to support Council in utilising its Commercial Property to provide a financial return to Council.

The 30 November 2015 Council report noted the key elements of the strategy to be (as extracted from the report):

- 1 **Objective** – the key objective of the strategy is “to buy, sell, lease or partner with other parties to realise one-off or perpetual financial benefit to complement Council's other revenue sources;
- 2 **Transactional Arrangements** – includes:
 - a Due diligence to be undertaken on all transactions;
 - b Competitive process is used to ensure appropriate probity;
 - c An appropriate reporting framework is in place; and
 - d Performance measures are established.
- 3 **Risk Management** – an appropriate risk management framework is in place based on Council's Risk Management Framework.
- 4 **Governance Framework** – the framework covers the following:
 - a Purpose;
 - b Prudent Person Standard;
 - c Governance Arrangements; and
 - d Reporting
- 5 **Policy** – policy proposed covers:
 - a) Use of the fund; and
 - b) Dividend Policy.
- 6 **Legal Framework** – the legal framework the strategy will operate under includes:
 - a Legislation;
 - b Council Policy and Procedure; and
 - c Recommendations [Department of Local Government and Independent Commission Against Corruption].

As noted in the 30 November 2015 report, “the strategy generally seeks to establish a framework that guides staff not only in the purchase, sale and management of investment property, but in all property transactions to ensure that the appropriate due diligence, probity and reporting is applied. “

As further noted in the 30 November 2015 report, the strategy also proposed the establishment of a Property Investment Fund that would initially comprise:

- 1 *Net Proceeds from the recent sales of Council's properties at:*
 - a *Watts Lane, Bellambi;*
 - b *Underwood Street, Corrimal; and*
 - c *Flinders Street, Wollongong.*
- 2 *Existing "operational" properties that have generally been acquired as investment properties being:*
 - a *Kembla Terraces;*
 - b *West Dapto Road, West Dapto;*
 - c *Sheaffes Road, West Dapto;*
 - d *Cleveland Road, West Dapto; and the*
 - e *Development potential of the airspace above Council's CBD carparks.*

In the delivery of the Strategy objectives to date, the Property Investment Fund (the Fund) has supported the funding of technical studies and planning for the West Dapto lands and provided a minor contribution to resourcing and supported Council during COVID, having since been reimbursed.

Current actions underway include the proposed sale of 231 Sheaffes Road Stream Hill and the ongoing investigation and development of proposals for the site at 340 West Dapto Road. It is anticipated that the Sheaffes Road site will be live to market 15 September with Expressions of Interest closing 1 November 2023.

Review of the Commercial Property Strategy

As part of the review, representatives from Property & Recreation, Finance, Infrastructure Strategy and Planning and Corporate Services were consulted, and feedback requested.

During the review of the Strategy as adopted by Council on 30 November 2015, the following points were raised and considered as part of the review:

- 1 Ensuring there is a clear definition of Commercial Property to provide further clarity around the scope of application of the strategy and the types of land within Council's portfolio that the Strategy was to apply to. It was also noted that the Strategy needed to ensure that the acquisition purposes fall within the statutory parameters for property acquisition by local governments.
- 2 That the Strategy should reference the Unsolicited Proposals Policy which had been adopted since the Strategy was endorsed in 2015.
- 3 That the Strategy should support decision making in respect of land parcels, specifically in relation to acquisition, disposal, hold or develop.
- 4 That the Strategy needs to clearly refer to related Council Policies and any legislation that has changed since adoption of the Strategy by Council in 2015.
- 5 That the Strategy should better reflect the need for adequate resourcing and appropriate administration to be expensed against the Fund to draw down on the reserve; and
- 6 The format of the Strategy needs to be re-visited generally.

Proposed amendments to the Commercial Property Strategy

The revised Commercial Property Framework is attached at Attachment 2 and seeks to address the comments raised during the review.

The proposed amendments to the Strategy are summarised below:

- 1 That the Commercial Property Strategy be renamed to more accurately reflect its intention and application as a Framework;
- 2 A summary in relation to Council's property portfolio including definitions relating to different land classifications and 'categories' of land has been included at the beginning of the Framework. This includes a distinction between land that is considered to be Community Property, Operational Services Property and Commercial Property (being the subject of the Framework). The intention of these additions is to provide clarity around the parameters of the Framework and the types of land that it is intended to apply to.

- 3 That the Governance framework reinforce and articulate Executive oversight and reporting and regular updates to Council's Audit, Risk and Improvement Committee (ARIC).
- 4 Further commentary has been added to the Framework relating to "Purpose" and "Objectives". The additional commentary in this section of the Framework seeks to provide further clarity around what the Strategy is intended to achieve and how it seeks to achieve these objectives.
- 5 An additional section has been added which relates to the Portfolio Decision Making Process. It is clear in this section that as a minimum any statutory/legislative requirements need to be met. Assuming these requirements are met, the following items must be addressed:
 - a Criteria for Portfolio Decision Making Process;
 - b Due Diligence;
 - c Competitive Process;
 - d Reporting; and
 - e Performance.

Whilst items b-e above were pre-existing in the 2015 Strategy, item a has been added which includes criteria to be considered when determining whether to proceed with a Commercial Property transaction. This includes criteria for each of the following scenarios:

- a Purchasing or acquiring Commercial Property;
- b Holding Commercial Property;
- c Realising/Selling Commercial Property; or
- d Developing Commercial Property.

The intent behind the addition of this criteria is to support decision making in relation to Council's Commercial Property with a view to ensure decisions made reflect the best achievable outcomes. The remainder of the Portfolio Decision Making Process items, whilst pre-existing in the Strategy support the Criteria for Portfolio Decision Making Process.

- 6 A section has been added to recognise ongoing cost of administration and management.
- 7 Lastly, general formatting changes have been implemented to the Framework, including most notably merging the Governance Framework around decision making and the Fund into one section of the Strategy to avoid repetition and promote further clarity.

It is intended that the Commercial Property Framework will be reviewed again within a 2-year period or reviewed within this period should significant changes arise that impact the ability to implement the Framework.

PROPOSAL

It is proposed that the revised Commercial Property Framework be endorsed by Council.

CONSULTATION AND COMMUNICATION

As part of the review, representatives from Property & Recreation, Finance, Infrastructure Strategy and Planning and Corporate Services were consulted, and feedback received.

PLANNING AND POLICY IMPACT

This report contributes to the delivery of Our Wollongong 2032 Goal 5 - "We have a healthy community in a liveable city". It specifically delivers on core business activities as detailed in the Property Services Service Plan 2023-24.

SUSTAINABILITY IMPLICATIONS

The revised Framework contributes to Council's financial sustainability and supports future growth and expansion. It provides a mechanism to promote more efficient and improved service delivery through collaboration and innovation.

RISK MANAGEMENT

The recommended changes support a risk management approach by providing oversight of the commercial property portfolio. Clearly articulating the scope to which this framework applies, along with improved governance requirements reduces risk and enhances the controls in place to manage risk.

FINANCIAL IMPLICATIONS

As at 30 June 2023, the Fund had a balance of \$9.5M. There are no additional financial impacts from the proposed changes to the Strategy.

CONCLUSION

The review of the Strategy will ensure that it remains a relevant and accurate document incorporating a framework to support Council with decisions impacting Commercial Property or the Fund.

ITEM 5 COMMERCIAL PROPERTY STRATEGY

The Commercial Property Strategy has been developed to provide a governance framework for the management of Council's property assets and for the future purchase and sale of property assets.

RECOMMENDATION

The Commercial Property Strategy be adopted.

ATTACHMENT

Commercial Property Strategy (Governance Arrangements)

REPORT AUTHORISATIONS

Report of: Peter Coyte, Manager Property and Recreation

Authorised by: Greg Doyle, Director Corporate and Community Services – Creative, Engaged and Innovative City

BACKGROUND

Council holds property to support the delivery of services and to meet the outcomes of the Wollongong 2022 Strategy. It can also hold property in order to diversify its income source through sound investment in commercial property that will provide a return to Council. With this in mind, the Commercial Property Strategy has been developed.

The key elements of the strategy are:

- 1 **Objective** – the key objective of the strategy is “*to buy, sell, lease or partner with other parties to realise one-off or perpetual financial benefit to complement Council's other revenue sources*”.
- 2 **Transactional Arrangements** – includes:
 - a Due diligence to be undertaken on all transactions;
 - b Competitive process is used to ensure appropriate probity;
 - c An appropriate reporting framework is in place; and
 - d Performance measures are established.
- 3 **Risk Management** – an appropriate risk management framework is in place based on Council's Risk Management Framework.
- 4 **Governance Framework** – the framework covers the following:
 - a Purpose;
 - b Prudent Person Standard;
 - c Governance arrangements; and
 - d Reporting.

5 **Policy** – policy proposed covers:

- a Use of the fund; and
- b Dividend Policy.

6 **Legal Framework** – the legal framework the strategy will operate under includes:

- a Legislation;
- b Council Policy and Procedure; and
- c Recommendations [Department of Local Government and Independent Commission Against Corruption].

The strategy seeks to establish a framework that guides staff not only in the purchase, sale and management of investment property, but in all property transactions to ensure that the appropriate due diligence, probity and reporting is applied.

PROPERTY INVESTMENT FUND

The strategy also proposes the establishment of a Property Investment Fund that will initially comprise:

- 1 Net Proceeds from the recent sales of Council's properties at:
 - a Watts Lane, Bellambi;
 - b Underwood Street, Corrimal; and
 - c Flinders Street, Wollongong.
- 2 Existing "operational" properties that have generally been acquired as investment properties being:
 - a Kembla Terraces;
 - b West Dapto Road, West Dapto;
 - c Sheaffes Road, West Dapto;
 - d Cleveland Road, West Dapto; and the
 - e Development potential of the airspace above Council's CBD car parks.

PROPOSAL

The strategy be adopted.

CONSULTATION AND COMMUNICATION

The Commercial Property Strategy has been provided to the Corporate Governance Committee and the Audit Committee for information.

PLANNING AND POLICY IMPACT

This report contributes to the delivery of Wollongong 2022 goal "We are a connected and engaged community".

It specifically delivers on the following core business activities as detailed in the Property Services Service Plan 2015-16.

FINANCIAL IMPLICATIONS

It is proposed that the fund would initially be established with the proceeds (\$7.6m) from the sale of Underwood Street, Corrimal and Watts Lane, Bellambi.

An amount of \$200,000 per annum is proposed to be set aside for the first 3 years from the reserve to provide for initial investigation costs such as valuations, enquiries and other due diligence.

CONCLUSION

Council has the opportunity to diversify its income sources through appropriate investment in property assets that have the capacity to provide a commercial return on the investment. The Commercial Property Strategy sets out a framework that guides Council officers in consideration of investment opportunities and in the reporting of the performance of those assets.



Commercial Property Strategy 2023

Wollongong City Council

Wollongong City Council - Commercial Property Strategy 2023

Council's Property Portfolio

Wollongong City Council is responsible for a significant range of properties throughout the Wollongong local government area. Some properties within this portfolio are vital to the delivery of services and facilities to the community, whilst others provide for an important income stream for Council.

Whilst this Strategy relates to Council's Commercial Property, it is important to demonstrate the contact of Council's Commercial Property within the wider Property Portfolio.

Council's property portfolio consists of land owned or managed by Council which falls within one of the following categories:

<p>Council Owned Land</p> <p><i>All Council owned land must be classified as either Community Land or Operational Land</i></p>	<p>Community Land</p> <p>Community Land includes land intended for public access and use including public reserves and is managed under the <i>Local Government Act 1993</i>.</p> <p>Community Land cannot be sold, can only be leased or licenced pursuant to certain conditions and must have a Plan of Management prepared for it. Community Land may be reclassified to Operational Land to meet future service requirements/needs by way of an amendment to the Local Environmental Plan (reclassification).</p>
<p>Council owned Public Roads</p>	<p>Operational Land</p> <p>Operational Land does not have any particular legislative restrictions other than those that may apply to any piece of land (for example planning restrictions).</p> <p>Land classified as Operational includes commercial and residential property (either held for capital gain or providing rental yields).</p> <p>Pursuant to the <i>Roads Act 1993</i>, Council is the Roads Authority in relation to public roads within the Wollongong local government area. Public roads are roads that are opened or dedicated as public road and any road that is declared to be public road within the meaning of the <i>Roads Act 1993</i>.</p> <p>As Roads Authority, Council has the powers to name, road, dedicate and other actions pursuant to procedural and legislative requirements.</p>
<p>Crown Reserves (Council as Crown Land Manager)</p>	<p>The management of Crown Land is governed by the <i>Crown Land Management Act 2016</i>, which authorises Council to manage Crown Land as if it were Community Land under the <i>Local Government Act 1993</i>.</p>

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The uses of the land within Council's Property Portfolio can be summarised into the following categories:

Community Property

Community Property includes property that provides services to the community, either directly or indirectly as part of a particular Council service, as well as those properties where Council engages with the community as part of a Council service. These can include libraries, community halls, community centres, recreational facilities such as parks or open spaces, pools or related facilities.

Indirectly, these may include properties that are offered to community service providers such as sporting clubs, surf clubs, not-for-profit organisations, charities or community organisations. Council may elect to make these properties available on preferential lease or licence terms such as subsidised rent (or rent pursuant to Council's Community Sporting and Community Group Rentals Policy) in order to attract the most appropriate service provider.

Operational Services Property

These properties are utilised to accommodate Council staff who oversee, manage and deliver Council's administrative and support service functions relating to direct service delivery. Examples of these include Council's Administration Building, Town Hall and Council Depots.

Commercial Property

Commercial Property relates to the use and management of land or assets where the primary purpose is for the generation of revenue. These properties have financial objectives such as achieving self-sufficient operation, achieving their highest and best financial use and to supplement the funding of the operation, management, maintenance and capital requirements for Council's other services.

Whilst properties of a commercial nature may also include a provision for community benefit, this is generally a secondary function that may not always apply however opportunities to achieve community benefit will be maximised wherever practical to maximise the overall value being realised.

The properties that fall within the Commercial Property category will be determined from time to time to meet service requirements as required.

Generally these properties are Operational Land and do not fall into the Community Property or Operational Services Property categories. The acquisition history of these properties and reason for ownership will be considered when determining which properties fall within the Commercial Property category and a list of these properties is maintained and reviewed on a regular basis.

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Purpose

This Strategy has been developed to provide an appropriate framework for the resourcing, management of and decisions relating to Council's Commercial Property, specifically relating to the following:

- Purchasing or acquiring Commercial Property;
- Holding Commercial Property;
- Realising/Selling Commercial Property; or
- Develop Commercial Property.

The scale of Council's decisions relating to Commercial Property can result in high risk exposure. This strategic framework aims to manage these risks and facilitate Council obtaining the best value from its Commercial Property.

This Strategy also provides a mechanism to measure the performance and outcomes from Council's Commercial Property and provide guidance for Council and Council officers in relation to property transactions. It seeks to guide the way in which Council can participate and be involved in the commercial investment and property development sector and promotes where possible Council providing leadership in terms of commercial outcomes, planning outcomes, along with environmental and social results.

Council's Commercial Property is supported by Council's Property Investment Fund and as such this Strategy also seeks to support and influence decision making in relation to the Property Investment Fund.

Objectives

In achieving the purpose of this Strategy, the Strategy seeks to meet the following Objectives:

- Ensure appropriate governance is in place for decision making relating to Council's Commercial Property and Property Investment Fund;
- Seek to maintain and grow the value of Council's Commercial Property and Property Investment Fund;
- Work to achieve best value from Council's Commercial Property;
- Consider the highest and best use of properties within the Commercial Property portfolio and make appropriate decisions to maximise financial return;
- Manage and maintain and expand Council's income producing asset base and facilitate the unique opportunity to supplement Council's revenue into the future.

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This is proposed to be achieved by:

- Undertaking a program of selective property decisions with the specific purpose of utilising growth in value;
- Increasing over time the value of Council's Commercial Property portfolio of income producing properties to supplement other income;
- Investing income from the Property Investment Fund towards new commercial opportunities or investment in existing Commercial Property;
- Ensuring that any decisions made meet the relevant legislative and statutory requirements and consider the statutory environment that local government operates within; and
- Investing sufficient resources to realise the benefit of Council's Commercial Property Portfolio.

Portfolio Decision Making Process

All decisions in relation to Council's Commercial Property portfolio will as a minimum meet all legislative and statutory requirements. In addition, pursuant to the *Local Government Act 1993* any acquisition or disposal of land along with any other property related decisions that exceed delegation must be determined by way of a Council resolution.

Generally, the decisions relate to purchasing or acquiring Commercial Property, holding Commercial Property, realising/selling Commercial Property or developing Commercial Property. Some decisions may fall outside of these decision points, for example the refurbishment of a Commercial Property building/asset, leasing of Commercial Property or amending planning controls on a Commercial Property. These additional decisions will need to consider the same Portfolio Decision Making process as appropriate.

When making decisions in relation to Council's Commercial Property Portfolio, the following items must be addressed:

- Criteria for Portfolio Decision Making Process;
- Due Diligence;
- Competitive Process;
- Reporting;
- Performance; and
- Administration and Management.

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Criteria for Portfolio Decision Making Process

As a minimum, the following criteria must be addressed when considering decisions relating to Commercial Property.

Decision to be assessed	Criteria to be considered
Purchasing or acquiring Commercial Property	<ul style="list-style-type: none"> • To provide uplift of existing holdings through acquisition of adjoining lands to increase development potential. • There is a stated future strategic use – Short-medium term commercial outcomes: <ul style="list-style-type: none"> – Lease of licence of property and/or; – Operational use and/or; – Hold for capital gain to be realised upon release for strategic purpose at market value. • It is a response to market conditions – Favourable buyers’ market. • An opportunity arose that provided exceptional ROI and/or capital gains.
Holding Commercial Property	<ul style="list-style-type: none"> • There is a stated/endorsed future strategic need; • It is fulfilling a current strategic need; • It is fulfilling a current commercial need; • The site is meeting its highest and best use; • It is a response to market conditions – Wait to realise optimal return; • There is a lack of political will; • There is a lack of clear direction or further investigation is required to make an informed decision.
Realising/Selling Commercial Property	<ul style="list-style-type: none"> • The site no longer meets the need it was originally acquired for or an alternative opportunity available; • Council is unable to achieve the sites highest and best use; • The sale unlocks otherwise unachievable potential; • Release equity - Revenue from sale could be used to fund a development or acquisition of higher public benefit.

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- It is a response to Market conditions – Favourable market, significant uplift;
- Cost to hold exceeds both commercial and strategic benefit;
- To enable an alternative service with community benefit achieved along with commercial return;
- Significant development surrounding the site will impact value or future development opportunities.

A develop scenario would apply if a development meets all the following criteria:

- It is a response to favourable market conditions; and
- There is an opportunity to achieve a commercial gain; and
- Allows Council to achieve the sites highest commercial yield and return on investment above that of a divest scenario; and
- Level of risk is shared and decreases Councils exposure to an acceptable level.

Develop Commercial Property

Additional or desirable criteria:

- If a proposal has an ability to provide a supplementary public benefit without compromising commercial outcomes this opportunity should be explored;
- Provides Council with control over the outcome in regard to use and quality of the design + construction; or
- Demonstrates catalyst potential for the city and/or exceptional city benefit.

Due Diligence

Appropriate due diligence will be undertaken on all proposed decisions in relation to Council's Commercial Property Portfolio. This will include the following (as appropriate):

- Market Valuations are to be undertaken by registered and independent valuers;
- Feasibility of the proposal is to be assessed considering whole of life costings, cost of any works to be undertaken and are to consider appropriate financial reports for example discounted cash flow analysis, internal rates of return, net present value assessments;
- Where a building is involved, building condition reports are to be undertaken to determine condition of building and estimate future costs associated with maintenance and replacement;
- Contamination/hazardous material reports are to be commissioned where there is a risk of contamination or hazardous materials on the property;

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- Geotechnical reports are to be undertaken where deemed appropriate;
- When a lease may be involved, consider financial analysis of the proposed lease;
- Appropriate legal advice is to be obtained in relation to the proposed transactions; and
- If transactions are anticipated to trigger either the Unsolicited Proposal's process pursuant to Council's Unsolicited Proposals Policy or if they could be considered to be a Public Private Partnership (PPP) pursuant to the *Local Government Act 1993* any additional procedural or legislative requirements must be complied with in line with any additional approval pathways.

Competitive Process

Council's default position is to undertake a competitive process for the sale, lease or licence of its Commercial Property. As a minimum, a competitive process relating to transactions must be undertaken if required under legislation or Council policy. A competitive process will generally be conducted through either tender, quotation or a call for proposals.

Despite a competitive process being undertaken, Council will determine whether proposals meet commercial requirement by way of obtaining independent valuations as part of the above Due Diligence requirements.

Council's Land and Easement Acquisition and Disposal Policy (as amended from time to time) will act as a baseline for land transactions. In particular it will act as a baseline for land transactions proposing direct negotiations with any exceptions or variations from this baseline to be determined in line with that Policy.

Reporting

The performance of Council's Commercial Property Portfolio and Property Investment Fund will be reported to Executive Management Committee on a quarterly basis and to Council by way of regular updates.

The report to Executive Management Committee will include:

- Progress in respect of any current Commercial Property transactions;
- Performance of the properties held; and
- Transactions relating to the Property Investment Fund.

Any transactions relating to Commercial Property or the Property Investment Fund in excess of \$1,000,000 will be reported to the Audit Risk & Improvement Committee.

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Commercial Performance

Any proposals relating to Commercial Property require a business case to be reported to Executive Management Committee and must consider any relevant commercial benchmarks. As a minimum, the following benchmarks should be utilised where appropriate:

- Positive Internal Rate of Return;
- Appropriate Development Margin Target which correlates with level of risk;
- Positive Net Present Value calculation;
- Discounted Cash Flow analysis adopting an appropriate percentage (for example 10%);
- Acceptable return on Asset/Investment relating to the transaction; and
- Generally, calculations that confirm that the potential return is proportionate to the level of risk.

Where appropriate, expert advice should be sought in respect of proposals relating to Commercial Property to support the business case. Executive Management Committee reserve the right to set additional benchmarks relating to the proposed transaction in their discretion.

Administration and Management

- For the Fund to be maximised, a recurrent allocation will be made resource administration and management of the Fund and related Strategy.
- Approval of resources must be via the Executive Management Committee.

Risk

A generic Risk Assessment Framework has been developed to be utilised in relation to each investment-based transaction of Commercial Property. This risk assessment will be reviewed and tailored to each specific transaction and reviewed accordingly for accuracy.

Generally, Council will seek professional advice when required to assist with conducting appropriate due diligence and managing risk. This professional advice can also assist with on-going property management in addition to transactional advice.

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As a minimum, the following risks will need to be addressed:

Risks	Proposed Mitigation Measures
Asset Condition Risks	<p>Appropriate professional assessments will be obtained including:</p> <ul style="list-style-type: none"> • Site environmental condition assessments; • Building condition assessments; and • Estimate of ongoing maintenance costs or replacement costs for the life of the asset.
Investment Risks	<ul style="list-style-type: none"> • Due Diligence, Reporting and Commercial Performance and their requirements therein will be considered prior to making decisions.
Probity	<p>Probity will be managed through a Probity Plan and Negotiation Protocol for transactions.</p> <p>A Probity Plan will cover as a minimum:</p> <ul style="list-style-type: none"> • Decision making process; • Value for money; • Conflicts of interest; • Confidentiality; • Security of Information. <p>A Negotiation Protocol will cover as a minimum:</p> <ul style="list-style-type: none"> • Decision making process, delegations and approvals required; • Communication with parties; and • Agreement on process for disputes. <p>Certain circumstances will require the engagement of an independent probity advisor, especially if the transaction is proceeding via an Unsolicited Proposals process or a Public Private Partnership approvals pathway.</p>
Risk Profile	<p>The risk profile will be in line with Council’s organisational risk profile.</p> <p>A risk profile will be maintained in relation to each of Council’s Commercial Properties which will include:</p> <ul style="list-style-type: none"> • Asset Risk; • Market Risk; • Liquidity;

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- Diversification;
- Investment Time Horizon; and
- Economic Risk.

It will also include general organisational risk (reputational, financial, legal).

Governance Framework

An appropriate Governance Framework will be implemented on a project basis to ensure that the appropriate Council officers are involved in the proposal process and to ensure that governance considerations are met. It intends to:

- Provide guidance to Council officers in their dealings with Council's Commercial Property or with Commercial Property related transactions; and
- Provide a basis for accountability and transparency in relation to the Property Investment Fund.

Officers will seek professional advice in conducting due diligence and managing risk. Council has a panel of independent licensed valuers and has engaged a real estate firm to assist with the management of its properties and provide real estate services. Officers will also seek professional advice when undertaking Due Diligence (as required) and on-going property management.

To ensure due consideration of projects and transactions relating to Commercial Property, the Property Services Manager will prepare proposals with assistance from internal and external advisors. The proposals will be reviewed by the Property Investment Review Team prior to submission for consideration by Executive Management Committee.

Any legislative or statutory requirements need to be considered when making decisions relating to Commercial Property. These requirements will impact and influence any decisions regardless of their ability to meet other aspects of this strategy. Likewise, Council needs to consider any relevant Council policies relating to land transactions as may exist at the time of the decision along with any guidelines or recommendations published by governing bodies such as the Office of Local Government or the Independent Commission Against Corruption. Legal advice should be sought prior to proceeding with any Commercial Property transaction that may be at risk of breaching any legislative, statutory or policy requirements.

Property Investment Review Team

The purpose of the Property Investment Review Team is to review business proposals or significant transactions relating to Commercial Property or the Property Investment Fund prior to submission to and consideration by Executive Management Committee. This is to provide internal review and expert opinion; it is not necessarily intended to be an 'approval gate'.

The Property Investment Review Team will be chaired by the Director of Community Services or their nominee and as a minimum will include representatives from:

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- Property Services;
- Finance;
- Governance and Risk;
- Corporate Strategy; and
- Infrastructure Strategy and Planning.

Additional representatives can be included based on the nature of the project which can be determined on a case-by-case basis by the chair.

Property Investment Fund Governance Framework

A Property Investment Fund will be established to facilitate investment in property transactions that have the capacity to provide positive financial return to Council.

The fund will comprise sale proceeds of identified operational lands to be held for future investment. Through a resolution of Council, funds may be added or withdrawn from the fund.

The future investment in Commercial Property is aligned to Council's Financial Strategy adopted by Council in April 2017. This strategy identified three key objectives:

- Provide direction and context for decision making in the allocation, management and use of Wollongong City Council's financial resources;
- Guide Council in the development of a ten year financial plan and determine financial boundaries for delivery of operational and capital plans; and
- Council will use ratepayer's money, together with other funding available wisely, to provide prioritised services and improve financial sustainability and asset management.

The Governance Framework surrounding property investment generally and proceeds from the Property Investment Fund will need to comply with Council's overall investment strategy.

The Property Investment Fund will be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public funds, officers are to manage the Property Investment Fund to safeguard the portfolio in accordance with the intent of this Commercial Property Strategy. Commercial Property transactions that meet the intent of the Commercial Property Strategy will be considered to be compliant with the prudent person standard.

The Property Investment Fund will be used for the following purposes:

- To investigate Commercial Property transactions and undertake the necessary enquiries and due diligence for proposed property transactions;
- To purchase Commercial Property or participate in Commercial Property transactions.
- To adequately resource the administration and management of the Strategy and Fund.

The Property Investment Fund should retain a capital base sufficient to allow it to respond to market opportunities as or when they may arise. This does not necessarily require there to be substantial cash reserves held until opportunities arise as this would not necessarily be the best use of funds. It is not

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intended that funds from the Property Investment Fund be used for community or operational development proposals. Should Council decide to use funds for community or operational development it would be:

- Through a loan where the principal and interest is repaid to the fund from the budget of the project/appropriate division; and
- The interest rate set on the loan would be at the mid-point of Council's investment and borrowing rates.

The intention of the fund is to create a resource that increases to ensure it remains at a contemporary level. The fund will deliver a pre-determined dividend to Council each year as determined by Council's planning processes. In addition:

- Financial statements will be prepared to reflect the income received from either property sales or rental income from Commercial Property or property acquired through the Property Investment Fund;
- All costs will include full life cycle and operational costs as well as depreciation;
- A percentage of net profit earned from Commercial Property projects will be returned to general funds as income. The balance will be returned to the Property Investment Fund to assist with its growth. These percentages will be determined at the commencement of any Commercial Property Transaction;
- Capital appreciation will on realisation be split between the Property Investment Fund and general revenue.

The following requirements will apply to any transactions relating to the Property Investment Fund:

- The fund will be held in a restricted asset;
- Prior to submission of proposals to Executive Management Committee and Council for determination, transactions relating to Commercial Property or the Property Investment Fund will be reviewed by the Property Investment Review Team;
- The performance of the fund will be reported to Council against predetermined Key Performance Indicators as part of the Quarterly Review process;
- The Property Services Manager will include in their Annual Plan a list of known acquisitions and disposals to be undertaken as well as a list of properties that will be reviewed and assessed each year as part of the Annual Planning process. This will clearly identify the linkages to the Strategic Plan and how the activities of the fund will contribute to the objectives of this Commercial Property Strategy;
- Any transaction relating to Commercial Property, whether sale, purchase or lease will not be progressed without an appropriate Probity Plan, Negotiation Protocol and Governance Framework in place;
- Any sale or purchase of land will be by Council resolution as required under the Local Government Act 1993 and meet any other legislative requirements;

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- Leasing or licensing will be completed within adopted delegations and in accordance with any legislative requirements.

The performance of the Property Investment Fund will be measured against:

- Margin above the current bond rate;
- Property Council of Australia Property Fund Index; and
- Consolidated Land Fund Index.

Strategic Alignment

It is intended that this Commercial Property Strategy will contribute to the objectives of Council's strategic plans including Our Wollongong 2028 Community Strategic Plan, in particular Objective 4.3, Resources (finance, technology, assets) are managed effectively to ensure long term financial sustainability.

This strategy aligns with the Core Business of Property Services, in particular:

- Achieve market return on commercial leases; and
- Identify property-based investment opportunities.

Review

The policy will be reviewed bi-annually (or earlier if required) and reported to Council.

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