



**Horowhenua**   
DISTRICT COUNCIL

# **Property Strategy**

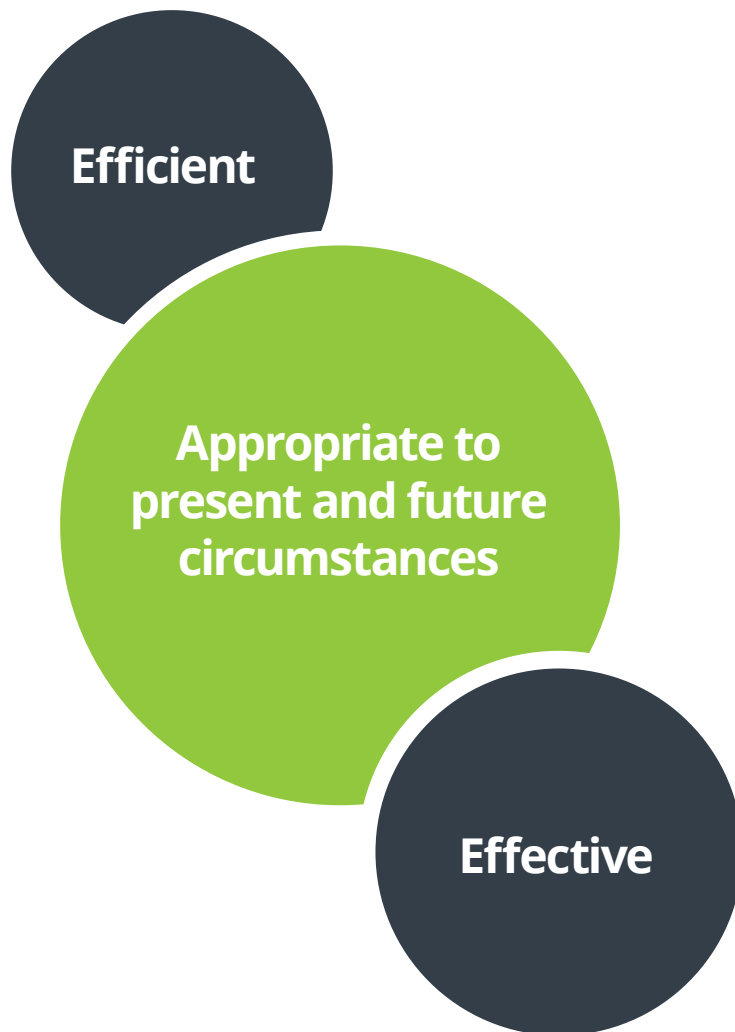
**November 2015**

# Overview

Council holds a significant property portfolio of approximately 550 properties that have a total rateable value (land and buildings) of approximately \$101 million (2014).

The reason Council holds property is to enable it to deliver services as defined in the Local Government, and Amendment Acts (LGA) of 2002 and 2012 respectively. In particular the overriding purpose of local government is defined in Section 10 of the LGA. This places an obligation on all local authorities “to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is the most cost effective for households and businesses”.

# Good quality local infrastructure is defined and measured as:



From a strategic point of view the Local Government, and Amendment Act defines the overall outcomes that need to be achieved by Councils. Many Council property obligations are then explicitly defined by statute, regulation and or policy. In determining how Council should undertake its property function it is impossible to depart from the stipulations dictated by this overarching framework.

Having established that Council must deliver a number of services as a result of regulatory and legislative imperatives it is important to note the majority of them require land-based assets and infrastructure. Consequently local authorities must by reason of their function, hold and maintain assets whether as owners; lessees; or in some other form e.g. as stakeholders in trusts, partnerships etc.

The purpose of this strategy is to provide an overarching framework which assists Horowhenua District Council in future decision making with regard to its property asset.



# The need for a Property Strategy

**Council can acquire assets in a number of ways and there is as a result a need to have a formal process to test whether an acquisition, or indeed the ongoing maintenance and management of an existing one, is in the strategic interest of Council and the community it serves.**

Similarly there is a need to have a formal process to dispose of assets should they be redundant after renewal; legislative change; or lack of community use. Consequently there is a necessity to measure the strategic value of an asset to the organisation and community by way of ensuring Council only owns, maintains, and/or manages those assets that have strategic relevance; relate to core business; or add value in another form. This approach will ensure that Council achieves the best possible return on its property asset and will minimise costs associated with maintaining or renewing it.

In September 2014 Council officers commissioned a strategic review of Council's asset portfolio with a view to informing the production of a property strategy. To assist in the decision-making process the report suggested the Council split its asset into core and non-core assets. Essentially those properties that have been designated as core or strategic need to be maintained in a state 'fit for purpose' and renewals funded. This does not mean those properties classified as non-core will necessarily be disposed of but does mean they need to be assessed for organisational and community benefit.



## The Property Strategy provides a process that facilitates this evaluation against a series of 10 key criteria:



Strategic relevance – has the property been identified as being strategically relevant?



Core business – does the property contribute to the core business of Council?



Location – is the property in the correct location?



Sufficiency – is the property sufficient for delivering the service?



Functionality/Utility – is the property in a good state of repair and 'fit for purpose'?



Utilisation – is the property well-utilised/ accessible for its purpose?



Provision – is the property the only one of its kind or are other options available?



Cost efficiency – is the property cost effective?



Return on investment – does the property provide a good ROI?



Cost – what is the cost of maintaining the property in a state fit for purpose?



# What defines core and strategic properties?

**Notwithstanding the current range of assets, it is important at this point to pose the question. ‘What property assets need to be held by Council to enable it to fully meet its regulatory and legislative obligations, both as defined in the LGA and as expressed in the wishes of its local communities?’**

Under Section 14 of the LGA Council has an obligation as a local authority to act in accordance with a number of principles many of these have relevance for Council's property functions for example, the obligations for Council.

- To conduct its business in an open transparent, and democratically accountable manner;
- To make itself aware of, and have regard to, community views;
- To undertake commercial transactions in accordance with sound business practices; and
- To ensure prudent stewardship and the efficient and effective use of resources.

The Long Term Plan (LTP) defines the activities that Council has committed to undertake and the associated outcomes it has agreed with the community (community outcomes). In particular the following matters are relevant.

1. The LTP outlines a key set of objectives for individual and community benefit from a range of real property assets.
2. Council's Investment Policy proposes a hierarchy of priorities that directly relate to how real assets should be held that being to:
  - i. Minimise the risk of loss
  - ii. Ensure planned expenditures are not hindered by a lack of funds
  - iii. Maximise returns from investment.
3. Council's Significance Policy, which is part of the LTP and is a requirement of Section 90 of the Act, defines which assets are considered to be Strategic Assets.



**Table 1:** Strategic Assets drawn from Strategic Asset Review (Property Group, Sep 2014)

Priority	Asset
Recreation	Public cemeteries
Land transport	Roading system as a whole
Water supply	Water supply as a whole
Wastewater disposal	Waste water drainage system as a whole
Solid waste disposal	Hokio landfill
Libraries	Levin library - Te Takeretanga o Kura-hau-po
Storm-water	Each storm-water drainage system as a whole

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# Property Classifications

**It is important to note at this point that property classified as core provision may not remain so following changes in regulation; legislation; Council's strategic priorities; or some other driver including exposure to the acquisition and disposal matrix facilitated by the Property Strategy.**

Similarly what might be classed as non-core currently could become core as a result of the same drivers.

It is also important to understand that a classification of non-core does not automatically mean that the relevant property/facility should or can be disposed of as a range of other factors come into play.

**Table 2: Property Classifications drawn from Strategic Asset Review**

Category of property	High level assessment	Reason for classification
<b>CORE</b>		
Drainage & sewage	Core	Core infrastructure
Cemeteries	Core	LTP levels of service. Currently Local Authorities are the only organisations that can provide burial grounds
Public swimming pools	Core	LTP levels of service
Public toilets	Core	Public Health Act and levels of service relating to the LTP
Solid waste	Core	Core infrastructure
<b>CORE &amp; NON-CORE</b>		
Car parking	Core & non-core	LTP levels of service
Community halls	Core & non-core	LTP levels of service
Community centres sports & cultural	Core & non-core	LTP levels of service
Depots	Core & non-core	Some required for cost-effective operation of services
Libraries (including Te Takeretanga o Kura-hau-pō)	Core & non-core	LTP levels of service. No other provider
Miscellaneous properties	Core & non-core	Levels of service (variable)
Reserves & parks	Core & non-core	LTP levels of service
Road reserve and walkways	Core & non-core	LTP levels of service
Civic buildings	Core & non-core	Office space is not core but emergency management is
Commercial buildings and land	Non-core	Not core business
Forestry	Non-core	Not core business
Motor camps	Non-core	Not core business
Pensioner flats	Non-core	Not core business
Rental houses	Non-core	Not core business
Rural leases	Non-core	Not core business



# Summary

## **Council by reason of the services it provides and legislation, particularly the Local Government Act, needs to hold and maintain property.**

The property portfolio held by Council is significant at about \$101,541,000 (IPSAS 16 & 17 valuations). Whilst Council holds a significant property portfolio there is a need to ensure it meets the Council's Investment Policy that being to:

- a. Minimise the risk of loss
- b. Ensure planned expenditures are not hindered by a lack of funds
- c. Maximise returns from investment.

Initial evaluations suggest that 27% of Council's property asset may not be delivering on its outcomes and a further 50% may or may not be delivering on those outcomes. In addition HDC's property holdings and maintenance thereof, together with the services delivered from those premises will have a significant effect both on debt and the level of rates contributions.

The requirement under the provisions of the Local Government Act (Amendment) that requires Council "to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is the most cost effective for households and businesses" infers that Council should assess what assets and property need to be held to deliver 'good-quality' infrastructure and services. To achieve this in a 'cost-effective' manner it is obligatory on Council to develop a policy to determine those properties crucial to delivering its infrastructure and services, and potentially divest itself of those not contributing to its outcomes, or doing so in an uneconomic way.

## **Property Strategy Evaluation Process**

In order to provide some transparency in determining whether a non-core property asset should be retained or disposed of it is necessary to

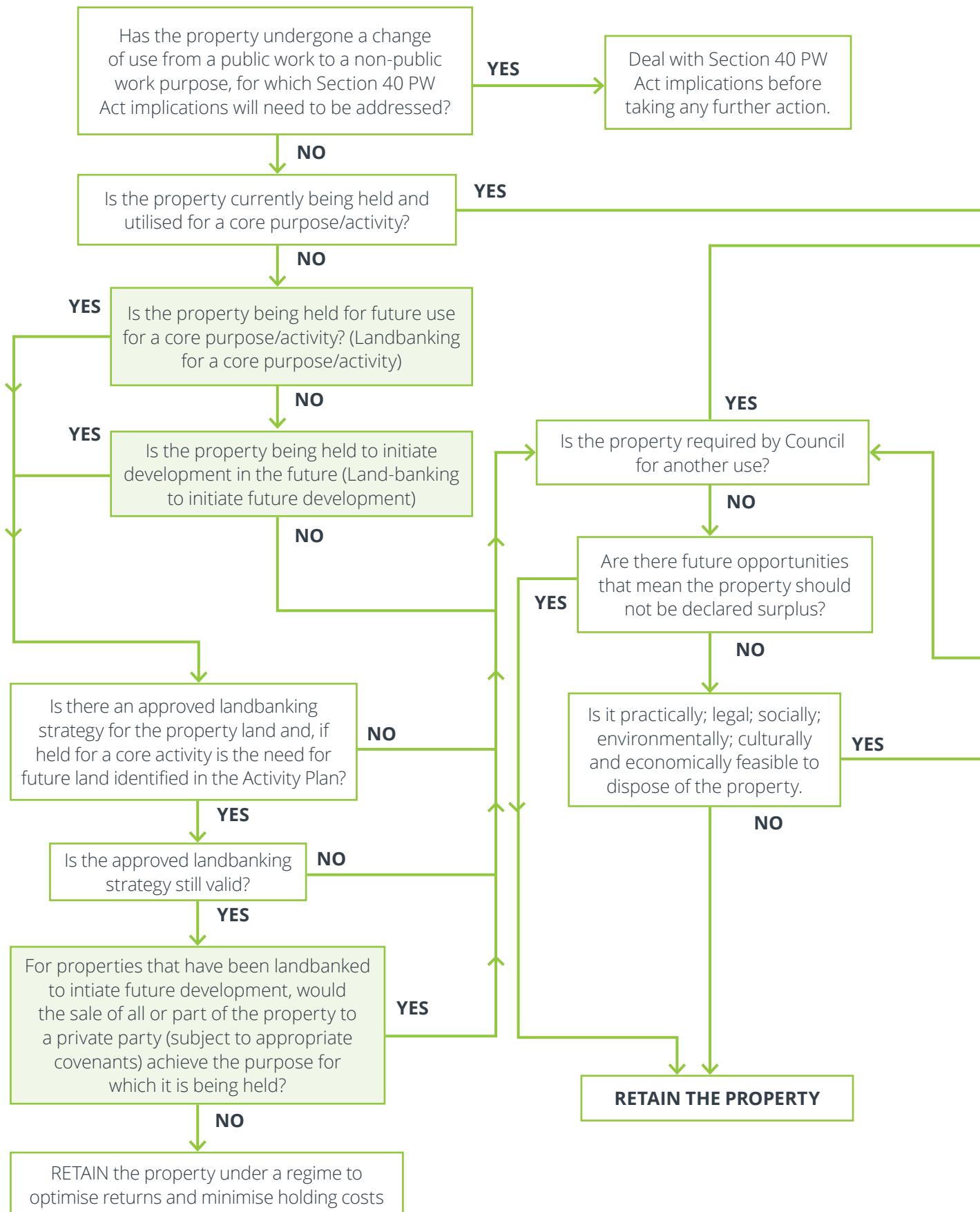
- a. determine the strategic value of the property (Appendix 1: Property Disposal Decision Matrix), and
- b. assess it according to a standard set of criterion (Appendix 2: Criteria for Land Acquisition or Disposal).

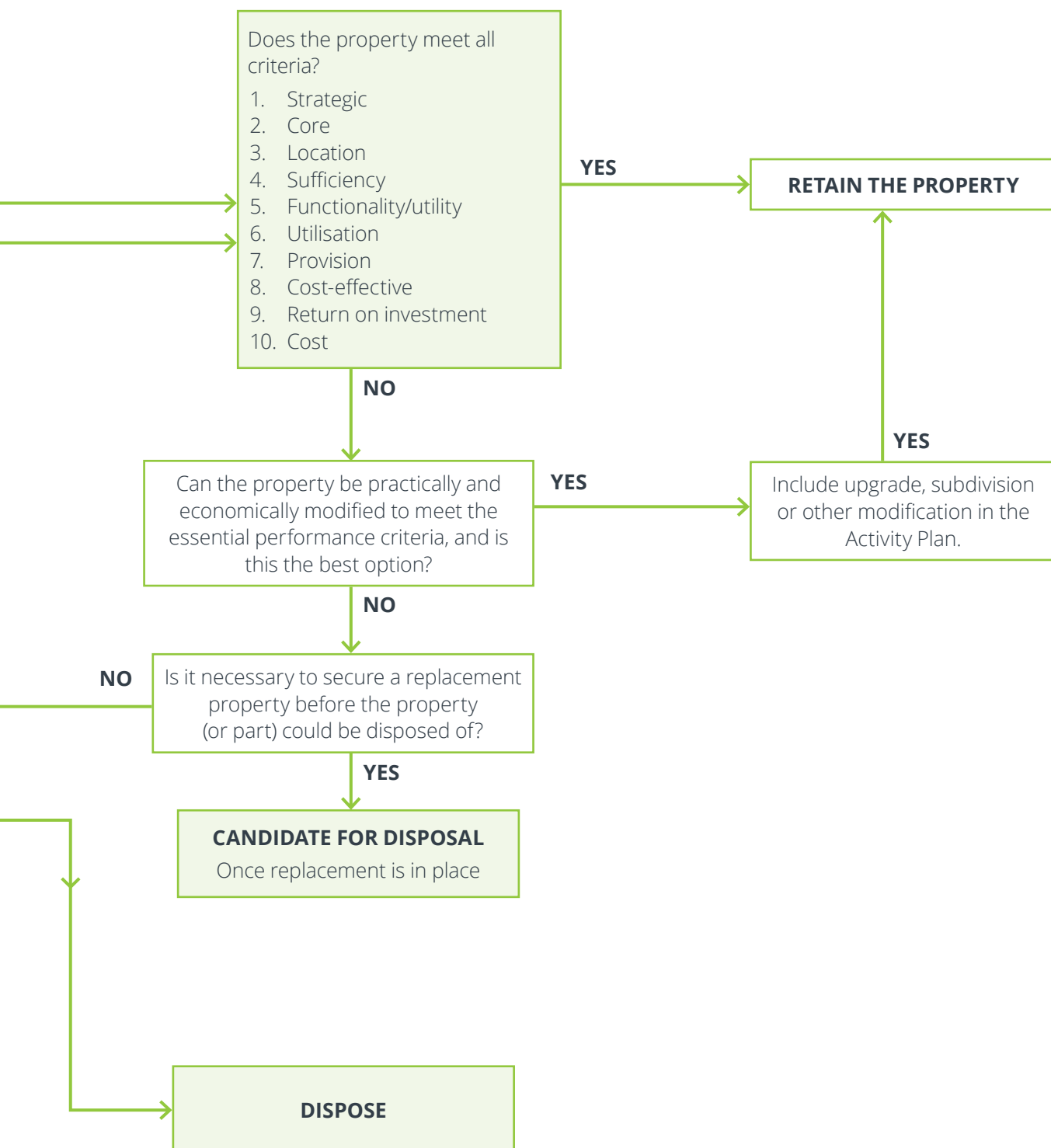
It is via this process that the relative benefits of retaining the property can be measured.

Should the evaluation suggest the asset be a candidate for disposal the feasibility factors will be evaluated via the Feasibility Factors in Property Disposal (Appendix 3) and it will be disposed in line with the Property Disposal Process (Appendix 4). Alternatively should there be good reason to acquire the property it will be done so via the Property Acquisition Process (Appendix 6).

# Appendix 1

## Property Disposal Decision Matrix







# Appendix 2

## Criteria for Land Acquisition or Disposal

Criterion	Measures/Scores
<b>Strategic Relevance:</b> Is the function the property will fulfil identified as a strategic priority for Council, or is subject of a Council resolution?	10 - The property is required to meet Council's strategic priorities 5 - The property provides the most cost-effective option of several required to achieve Council's strategic priorities 1 - The property is one of several options that could meet Council's strategic priorities.
<b>Core Business:</b> Is the function the property will fulfil core Council business?	10 – Core Council business 5 – not core Council business but desirable and no one else is supplying the service 1 - service could be provided by the private or voluntary sector.
<b>Location:</b> In terms of the purpose for which the property is held and utilised:	5 - The location is ideal 4 - The location is good to very good 3 – The location is good 2 - The location is acceptable, but could be better 1 - The location is poor.
<b>Sufficiency:</b> Is the property sufficiently large to accommodate the service and facilitate growth as required?	5 - The site and improvements are large enough and have sufficient additional land to accommodate future development (10-20%) 4 - The site and improvements are large enough for the current purpose 3 - The site and/or the improvements are too small, but this can be readily accommodated by improvements costing less than 20% of CV, or acquiring adjacent land 2 - The site and/or the improvements are too large (>20% than required).

Criterion	Measures/Scores
<b>Functionality/Utility:</b> Is the property fit for purpose? <b>Notes:</b> "Depreciation" is loss in value from any cause. The two main components are physical depreciation and obsolescence "Physical depreciation" is physical wearing out due to use and natural forces "Obsolescence" is loss in value from causes other than physical decay or wear. It includes functional, economic, legal and technological obsolescence	5 - The functional utility of the land and improvements is estimated to be within 90% of that exhibited by a new asset designed and built specifically for the purpose 4 - The functional utility of the land and improvements is estimated to be within 75% to 90% of that exhibited by a new asset designed and built specifically for the purpose 3 - The functional utility of the land and improvements is estimated to be less than 75% of that exhibited by a new asset designed and built specifically for the purpose, but the asset can still be practically used for the purpose 2 - Physical depreciation and/or obsolescence is of such a degree that the usefulness of the asset is moderately and noticeably constrained 1 - Physical decay and/or obsolescence is of such a degree that the usefulness of the asset is significantly constrained.
<b>Utilisation:</b> Is the property well-utilised? <b>Note:</b> Utilisation in this regard means the property is either (a) well utilised in terms of physical space, or (b) the property attracts high use levels.	5 - At least 95% of the floor area and 85% of the land area are effectively utilised for the purpose. Or the property exhibits a very high use ratio for its intended purpose. 4 - At least 85% of the floor area and land area are effectively utilised for the purpose. Or the property has a high use ratio for its intended purpose. 3 - At least 70% of the floor area and land area are effectively utilised for the purpose. Or the property has reasonable use for its intended purpose. 2 - At least 50% of the floor area and land area are effectively utilised for the purpose. Or the property has low use for its intended purpose. 1 - Less than 50% of the floor area or land area are effectively utilised for the purpose. Or the property is infrequently used in terms of its intended purpose. <i>Note: The percentage utilisation estimated can include an allowance for future growth.</i>
<b>Provision:</b> Is the property/service already provided elsewhere locally by Council or another provider?	5 - The service fulfils local need there is no other provision locally 3 - The service/property will need to be provided temporarily but may be provided by others or from another property longer-term 1 - The service/property is already provided locally or can be provided locally.

Criterion	Measures/Scores
<b>Cost Efficiency:</b> Can the function be provided in a more cost-effective manner, and is it practical to do so?	5 - No, the function cannot be practically provided in a more cost-effective manner 3 - It may be possible to practically provide the function in a more cost-effective manner 1 - Yes, the function can be practically provided in a more cost-effective manner.
<b>Return on Investment:</b> Does the function achieve a good return on investment in terms of economic return or strategic outcomes?	5 - The financial return from the property is equal to or exceeds a fair market return. Or delivers expected returns in line with Council policies 4 - The financial return from the property is between 90% and 100% of the fair market return or expected returns in line with Council policies 3 - The financial return from the property is between 75% and 90% of the fair market return or expected returns in line with Council's policies 2 - The financial return from the property is between 50% and 75% of the fair market return or expected returns in line with Council policies 1 - The financial return from the property is less than 50% of the fair market return or expected returns in line with Council policies.
<b>Capital Costs:</b> What are the capital costs required to maintain the property in a state fit for purpose?	5 – IEA greater than 67% of NBS; or capital costs are < 6% OF CV over the next ten years 4 – IEA greater than 34% of NBS; or capital costs are between 6-10% of CV over the next ten years 3 – Seismic strengthening to 67% of NBS less than 20% of CV; or capital costs are between 11-15% of CV over the next ten years 2 – Seismic strengthening to 34% of NBS less than 20% of CV; or capital costs are 16-20% of CV over the next ten years 1 – Seismic strengthening to 34% of NBS is less than 30% of CV; or capital costs are >20% of CV over the next ten years.

IEA - Initial Earthquake Assessment

NBS - New Building Standard

CV - Capital Value



# Essential Performance Criteria

Properties would fail the retention/acquisition criteria if they show:

1. A cumulative score less than 35
2. Any 2 or more criteria ranking as 1 or less
3. Any 4 or more criteria ranking as 2 or less

## Landbanking

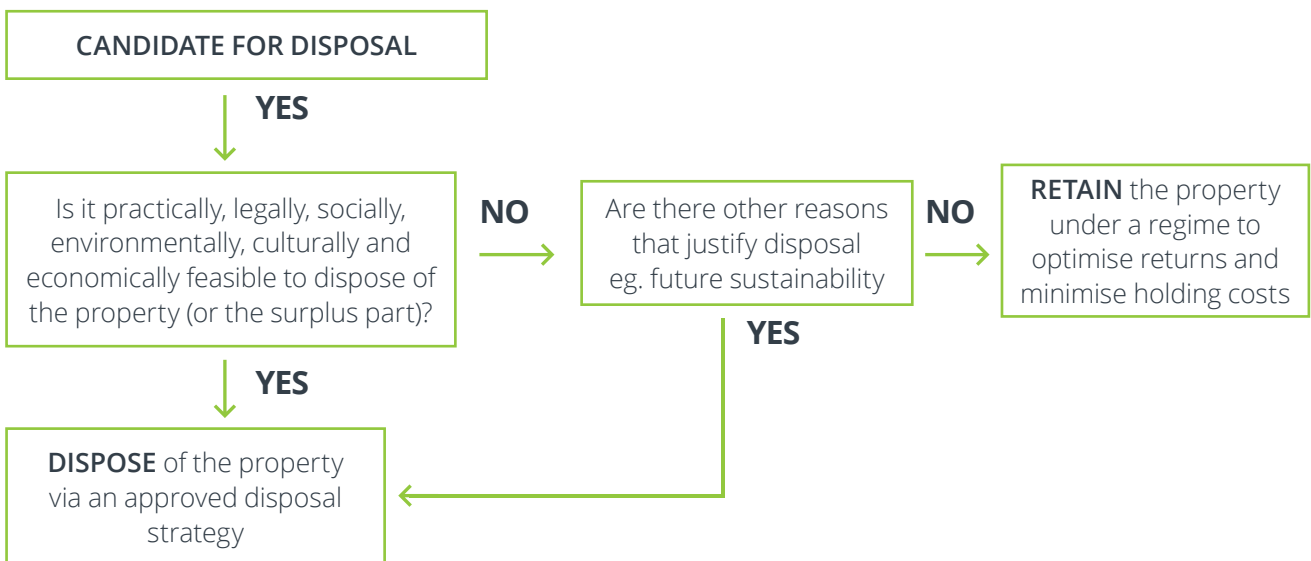
<p><b>Landbanking for future use for a core activity/purpose</b></p>	<p>For the property to meet the criteria for landbanking for a future core activity/purpose, the following needs to apply.</p> <ol style="list-style-type: none"> <li>1. The future need for the land/buildings has to be identified in the relevant activity plan.</li> <li>2. There needs to be an approved landbanking strategy for the specific property asset, in the form of a recommendation to landbank the property, with supporting arguments and evidence, signed off by the relevant Activity Manager and approved by the CEO/Council resolution.</li> <li>3. If the landbanking strategy is more than two years old, the Activity Manager needs to confirm that it is still current/valid.</li> </ol>
<p><b>Landbanking to initiate future development</b></p>	<p>The basis for this category of landbanking is to secure land to initiate development that will be beneficial for the community, but which is not otherwise being initiated by the private sector. It is envisaged that Council's role in this form of advance purchase would generally be one of initiation or facilitation on a case by case (usually short-term) basis.</p> <p>For the property to meet the criteria for landbanking to initiate future development, the following needs to apply.</p> <ol style="list-style-type: none"> <li>1. There needs to be an approved landbanking strategy for the specific property asset, in the form of a report and recommendation to landbank the property. As a minimum the report should contain supporting arguments, evidence and a risk assessment. The recommendation should be signed off by the Activity Manager and be approved by the CEO/Council resolution.</li> <li>2. If the landbanking strategy is more than two years old, the Activity Manager needs to confirm that it is still current/valid.</li> </ol>
<p>For properties that have been landbanked to initiate future development, determining whether the sale of all or part of the property to a private party (subject to appropriate covenants) would achieve the purpose for which it is being held</p>	<p>There may be grounds to release land that has been landbanked to initiate future development, if its sale would achieve the purpose for which it is being held.</p> <p>The test as to whether this applies is to determine the outcome that best achieves the "well-beings" described in Section 10(a) of the Local Government Act 2002:</p> <p>"to promote the social, economic, environmental and cultural well-being of communities, in the present and for the future".</p>

# Appendix 3

## Feasibility Factors in Property Disposal

### Feasibility Factors in Property Disposal

- Are there any issues with the underlying status of the land that may constrain or preclude disposal eg. land subject to the Reserves Act, endowments or trusts?
- If subdivision is necessary to separate the part of the property that is surplus, whether this is legally, practically and economically feasible?
- Whether the impact of Section 40 of the Public Works Act 1981 constrains the potential disposal?
- Whether it is economic to dispose of the property? The costs of disposal need to be compared with the estimated sale price plus the net present value of ongoing holding and administrative costs.
- Whether there are any other physical matters that may constrain the ability to dispose of the property eg. contamination.
- Whether there are any consultation requirements that may constrain the ability to dispose of the property eg. associated with road stopping and the disposal of strategic assets.
- Whether there are any other social, environmental or cultural issues that may constrain the ability to dispose of the property.



## Appendix 4

# The Property Disposal Process





# Appendix 5

## First Right of Refusal

Following the discharge of any pre-existing statutory or other legal obligations by Council, Horowhenua Iwi and Hapū will decide whether they want to purchase Council's non-core property prior to it being sold via an open market process.

The first right of refusal applies to non-core property which has been assessed as suitable for sale via an open market process.

The first right of refusal offer will be made to Iwi/Hapū who will determine if they have an interest in purchasing the non-core property and will further determine which Iwi or Hapū will proceed with the purchase.

Council will not make a determination on which Iwi or Hapū has rights over a particular property, and will approach all offers in good faith.

Market value will be paid for non-core property sold via first right of refusal.

This Appendix outlines the processes and timeframes which apply to the first right of refusal process.

1

Council by resolution to classify property for disposal as non-core.

2

If a property is subject to pre-existing statutory or other legal processes or prior contractual obligations, including registration of easements, Council Officers shall undertake those obligations/processes after advising Iwi/Hapū of these obligations and processes (such as the Reserve Act).

9

- (a) If Iwi/Hapū do not accept the determination, non-core property shall be disposed of via the open market and Council Officers will notify the iwi/hapū of the date that property goes to market.
- (b) If Iwi/Hapū accept the independent valuers determination, an agreement shall be entered into with settlement to occur within 30 working days of the date of the agreement (unless otherwise agreed between parties).

8

If the market value cannot be agreed between Council and Iwi/Hapū and/or their valuers, an independent valuer will be jointly appointed. The independent valuer will (within 30 working days of appointment) review the valuations received and provide a determination on value (not higher than highest valuation, and no lower than lowest valuation). Iwi/Hapū will indicate if they accept the determination.



# Appendix 6

## Property Acquisition Process





