



CONTINUING TO GROW MUNDARING

**INVESTMENT PROPERTY STRATEGY
2024 – 2027 SHIRE OF MUNDARING**

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1. EXECUTIVE SUMMARY

The Shire of Mundaring is located 35km east of Perth on the eastern fringe of the metropolitan area. It covers an area of 644 square kilometres with just under 50% of its total area being national park, state forest or priority water catchment.

Consistent with the intent of Council, Shire of Mundaring is seeking to grow, in a sustainable manner, its alternative sources of revenue to avoid over reliance on the existing rates base. This approach is viewed as a priority of Council primarily due to the high level of constraints on suitable developable land or other properties within the Shire. The primary reasons for this, are consideration of bushfire risk levels and the fact that approximately 50% of the Shire is comprised of either national parks, state forest or other reserves, thereby severely limiting 'typical' growth opportunities compared to other local governments.

This Strategy, Continuing to Grow Mundaring 2024 – 2027 (Strategy) outlines the principles and guidelines for the acquisition, management, development and disposal of investment properties by Shire of Mundaring, in accordance with relevant legislation, governance requirements, and strategic intent and goals as determined by Council .

Finally, this Strategy details a list of recommended actions to be implemented over a four year period in the form of a four-year action plan.

2. BACKGROUND

The Shire's existing adopted Strategy, Growing Mundaring, A Property Strategy for Mundaring Shire Council was released as formal statement of policy, strategy and objectives in September 2007.

The stated role and purpose of the 2007 Strategy was to:

- **Articulate** the guiding philosophy of the Shire in considering decisions about acquisition, management and disposal of property assets.
- **Define** the strategic policy framework within which specific property-related decisions are to be made.
- **Identify** the specific property-related objectives of the Shire, as a basis for determining the need for and priority accorded to individual transactions.
- **Define** the management and decision-making framework governing specific property decisions.
- **Set out** an ongoing plan of action for the efficient implementation of the Strategy.

In 2017, a partial review of this Strategy was undertaken with the findings detailed within the Review of Mundaring Property Strategy, March 2017. The scope of this review was limited to deal with Shire-owned freehold land that was held specifically for investment purposes.

The above documents have been reviewed as a component of preparation of this Strategy and the stated role and purpose remain valid.

3. STRATEGY OBJECTIVES

Council recognises the important role that prudent decision-making and effective management of property held for investment purposes can play in supporting both service delivery to the local community and the ongoing financial position of the Shire.

This Strategy aims to support the strategic intent of Council to generate and grow its revenue base as an alternate source of ongoing income. In relation to property for investment purposes, this Strategy establishes a framework and provides guidance for establishment of appropriate assessment criteria for the following related activities.

3.1 Property classification

Under this Strategy all property owned freehold by the Shire will be classified as one of four classifications. It is important to note that these classifications may not remain static and are intended to provide broad guidance as to the purpose of holding these properties for investment purposes. The four classifications are property held for:

3.1.1 Community purposes

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

Properties acquired primarily to serve the immediate and long-term needs of the community, such as parks, community centres, and facilities for public use. Where appropriate, consideration would be given to leasing improvements to not-for-profit community groups at a subsidised rental rate.

3.1.2 Strategic purposes

This includes property that is to be held and/or developed to achieve key actions or strategic goals of Council. Property held for strategic purposes will be held or developed to achieve one or more of the following purposes; economic/local job creation, place activation, or environmental protection/conservation.

The acquisition, development or disposal of property in this classification will be subject to assessment of alignment with objectives detailed within the Strategic Community Plan, Local Planning Strategy and other key planning policy or position statement documents.

While financial return on the classification of property is important, it is not the sole reason for owning property in this class.

3.1.3 Capital appreciation

Properties classified as capital appreciation includes those which are assessed as either undeveloped or underdeveloped, but are not held for community purposes.

Property held for capital appreciation will be developed for income when market conditions are favourable and the development risk is considered to be acceptable. Alternatively, these properties would be liquidated to the Shire's advantage when market conditions are considered to be favourable.

In general, income from any improvements should be maximised and property in this category would not be made available for community utilisation.

3.1.4 Income generation

Property held for income generation includes property where the maximisation of the income stream is considered to be the primary objective.

Land classified as income generation would be developed to the highest and best use of the site. Rental rates would be set by reference to the market levels, with regular reviews, depending on the specific circumstances.

In general, those properties that are the subject of subsidised rentals would not be considered for listing under this classification.

3.2 Property tenure

Generally, land that is in the sphere of control of the Shire can be considered as belonging to one of two following categories:

- **Freehold** – defines a property title by which the Shire owns land for perpetuity. Freehold property ownership is only limited by the prevailing zoning provided by the current local planning scheme. Importantly, freehold land has a greater potential provide a financial return.
- **Vested** – defines a property which is owned by state government (Crown Land) that has been provided to the Shire for its due care, control and management. Generally, the property is subject to use for a specific purpose (e.g. recreation) as outlined in the respective management order. Land that is vested with the Shire is more likely to provide social or an environmental return rather than a financial return.

3.3 Guiding principles for property acquisition/development

Notwithstanding the above, the Shire needs to exercise a due-diligence approach in undertaking a review of existing freehold owned land and seek a favourable financial outcome from these properties if deemed to be viable and consistent with this Strategy.

Where possible, the Shire should seek to purchase established, tenanted commercial (as opposed to residential) property, subject to market conditions of the time. This is primarily to reduce the level of risk associated with purchase and the likely resultant increased financial yield.

Properties classified as within the Income Generation Portfolio will be managed on a commercial basis only to ensure they meet the overall objective defined within this Strategy (i.e. no discount for not-for-profit etc).

The Shire should consider the overall reliability of the investment cash-flow of stable and consistent over that of a riskier high-yield/high risk investment.

Yields from investment property over the medium to long-term should demonstrate an identifiable exceedance over those that may otherwise be obtained from investing monies as detailed within the Shire Policy, Investments FI-02, February 2009.

3.4 Management of capital

Capital Investment Reserve

The Shire will continue to maintain a Capital Investment Reserve in accordance with s.6.11 of the Local Government Act 1995 (the Act). The Reserve is utilised to:

- Hold funds from the sale of properties that are classified as for investment purposes as defined in this Strategy.
- Hold interest earned from funds within Capital Investment Reserve.

Importantly, funds held within this reserve are to be utilised solely for the purpose of purchasing other income-producing properties, or to enhance the value of investment properties to maximise their earning potential.

Subject to cash-flow and forecast capital expenditure requirements on investment properties, funds held within this reserve are to be invested in accordance with the Shire's Investment Policy FI-02 until required for application to a capital purchase or improvement project.

Capital Income Reserve

The Shire will continue to maintain a Capital Income Reserve in accordance with the Act. The Capital Income Reserve is to hold all rental and other income received from long-term investment assets. Funds held within this reserve are to be utilised for the following:

- Cover of direct costs incurred in managing the investment portfolio.
- Finance specific capital projects as approved by Council.
- Reinvestment in the Capital Investment Reserve as determined by Council from time to time in order to preserve and augment the overall value of the investment portfolio.
- Hold interest earned from funds within Capital Income Reserve.

Subject to cash-flow and forecast capital expenditure requirements, funds held in this reserve are to be invested in accordance with the Shire's Investment Policy FI-02. Subject to cash-flow projections and forecast capital expenditure requirements, the amount of funds in this reserve should be kept to a minimum.

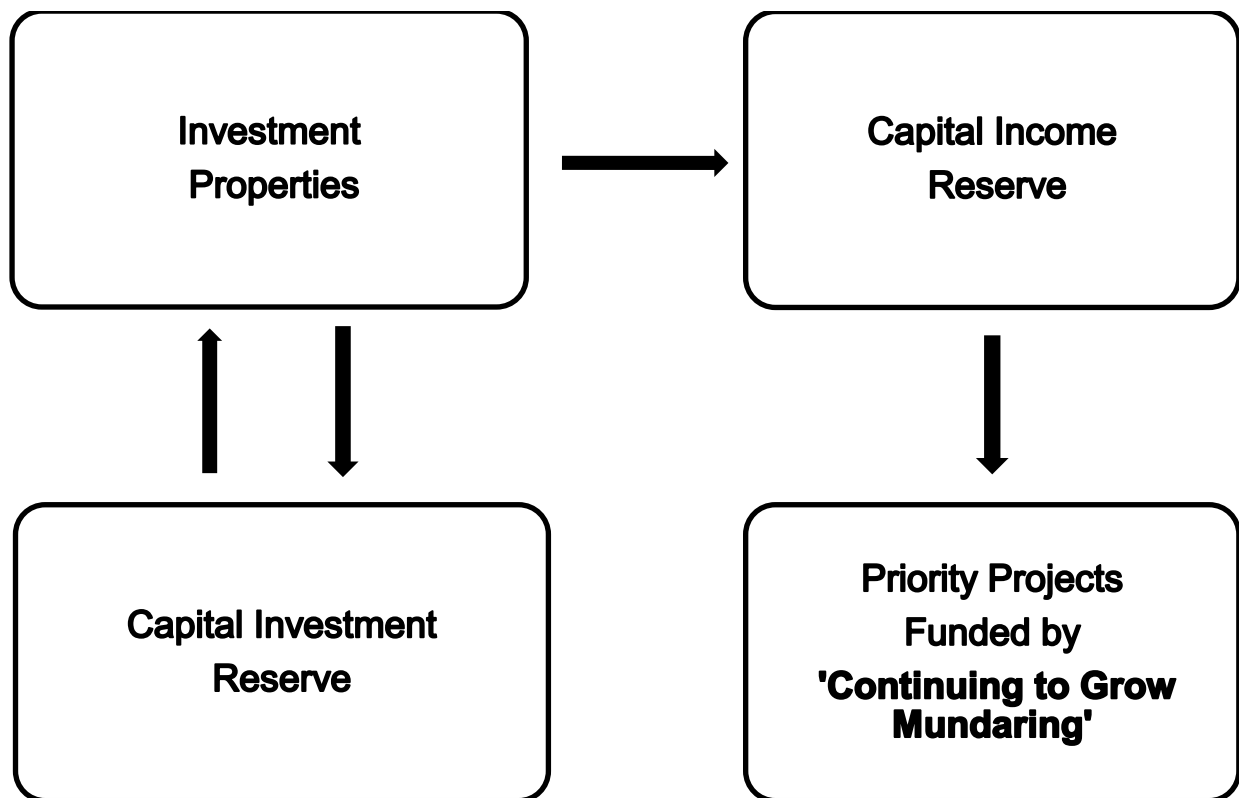


Figure 1 – Investment Property and SoM Reserve Monetary-flow Concept

4. LEGISLATIVE REQUIREMENTS

Shire of Mundaring property investments and disposals are subject to the following legislative and governance requirements:

- *Local Government Act 1995 (Western Australia)*: This Act provides the legal framework for local government operations, including property acquisition, disposal and management.
- *Local Government (Financial Management) Regulations 1996*: These regulations prescribe financial management practices for local governments, including property investment and asset management.
- *Local Government (Functions and General) Regulations 1996*: These regulations provide guidance on the functions and powers of local governments.
- *Other Relevant Legislation*: Any other relevant legislation must be given due consideration when making recommendations to Council for property investments.

5. RISK MANAGEMENT

Strategy implementation

In managing the Property Investment Portfolio, the Shire would act in a commercial manner as far as practicable and in accordance with all the relevant legislation as identified above.

If deemed to be required, the Shire would obtain and consider independent professional and impartial advice that may be reasonably required for decisions involving the Property Investment Portfolio.

Property disposal

In giving consideration to disposal activities related to property investment, Shire personnel would prepare a business case that provides a clear analysis and quantification of the risks and benefits in a financial, economic, operational and reputational context. This business case may also contain independent advice as referred to above to provide further clarity to Council with regard to recommendations for decision-making.

6. REPORTING AND MEASURING PERFORMANCE

- Strategy review - This Strategy shall be reviewed periodically (every 4 years) to ensure its alignment with changing legislative, community, and strategic needs as identified by Council.
- Property value - The Shire will procure a licensed valuer to calculate the fair value of each Investment Property as a component of the Strategy review period detailed above.
- Gross income yield - In reviewing the performance of the Investment Portfolio, the Shire will target a gross income yield of >CPI per annum, or such other rate as approved by Council from time to time.
- Capital growth rate - In reviewing the performance of the Investment Portfolio, the Shire will target a capital growth rate of CPI >CPI per annum, or such other rate as approved by Council from time to time.

7. IDENTIFIED FUTURE WORKS - FOUR YEAR ACTION PLAN

Recommended Actions	Year 1	Year 2	Year 3	Year 4
Actively pursue acquisition of income producing property*	X	X	X	X
Draft RFQ to enable development of Land Rationalisation Plan**	X			
Review of existing property portfolio*	X			
Development of Land Rationalisation Plan*	X			
Commence Implementation of Land Rationalisation Plan	X	X		
Implement medium-term objectives identified within the Land Rationalisation Plan			X	
Implement longer-term objectives identified within the Land Rationalisation Plan				X

Notes

* Activity conducted/advice sought from a registered Consultant/Real estate professional

** In developing a 'Land Rationalisation Plan' for Shire of Mundaring, the following aims and objectives will be addressed:

1. Identification all crown and freehold land under management of Shire of Mundaring.

2. Provision of a coordinated plan to guide future decisions of Council with regard to its freehold title or crown vesting.
3. To ensure that land holdings remain appropriated to the surrounding land-uses.
4. To ensure that freehold title or crown vesting lands considered to be essential for the Shire are retained.
5. Identification of land holdings that that offer limited benefits to the Shire or wider community to be disposed of.
6. Recommendations to be made on prioritising land holding for retention and disposal.
7. To make recommendations on rationalisation the zoning and land tenure of all land holdings:
 - retention of land holding
 - sale/disposal of land holding
 - development of land holding
 - convert to freehold land holding
 - convert to reserve land holding.

Finally, it is important to note that the proposed development of a Land Rationalisation Plan will have a broader use for the Shire than exclusively for decisions regarding the Property Investment Portfolio. Rather, it will serve as the basis for other land management and property related decisions from a planning, environmental and future infrastructure development point of view as well.