

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 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.”*

In the LGA “good quality” is defined and measured as:

- Efficient; and
- Effective; and
- Appropriate to present and future circumstances.

From a strategic point of view the LGA 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.

Property Drivers

The range of services Council’s deliver are many and varied and as such the property asset is diverse including:

- Infrastructural property, for example roads and water/ wastewater facilities;

- Land, buildings and facilities held for community purposes, for example halls, cultural hubs (“Te Takere”) cemeteries and libraries;
- Recreation and reserves land and facilities;
- General business premises including offices and depots;
- Residential housing units;
- Properties held for community good that may be leased to voluntary or community providers and;
- Miscellaneous assets such as endowment land and forestry blocks.

Property Function

Council’s property team manages the purchase; sale; rental; and leasing of Council property both commercially and to community and voluntary organisations. It also manages routine scheduled and reactive maintenance across all activities which include fire compliance and Building Warrant of Fitness works required to meet legislative and regulatory compliance.

The portfolio includes commercial; recreational; residential; and infra-structural buildings. The current cost of maintaining Council’s non-core asset for the next ten years is estimated to be \$2,884,000 this does not include interest payments; insurance; or overheads.

Similarly the current estimate to undertake seismic strengthening and deferred maintenance on non-core Council property is estimated at \$4,393,840 over the next 10 years.

This expenditure may be of a significant magnitude when set against the economic return realised from lease or use of the asset which may be of a ‘peppercorn’ nature or at 1% of land value (per annum). To minimise debt and maximise ‘bang for buck’ and ensure a good return on investment¹ there is a need to rationalise Council’s asset where necessary. The Property Strategy will enable that process.

The need for a Property Strategy

There are a range of ways that dictate how Council’s acquire assets including as indicated above the need to fulfil the requirements of primary legislation; to give effect to those objectives identified by the community in Long Term planning; restructure/reorganisation of Territorial authorities (TA’s); endowments; covenants; bequests; failure / bankruptcy of community organisations to name but a few.

¹ A subsequent piece of work that will arise from the Property Strategy is the Community Assistance Policy that will provide a commercial and community leasing framework.

As indicated 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.

A number of properties have previously been identified for sale via Council resolution arising from the meeting of Horowhenua District Council on 05.08.2009 these are indicated in Appendix 1. Efforts will continue to dispose of them under the terms of the existing resolution. However there are a number of other properties that need to be considered for disposal and the Property Strategy will provide a framework to determine those assets that should be acquired; held; and potentially disposed of by Council.

In September 2014 Council officers engaged the Property Group to undertake 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 Property Group 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 those being.

- 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?

Following evaluation against the matrix, but prior to potential disposal a report relating to those properties failing to meet the minimum criterion will be brought in front of Council for direction. Should disposal be confirmed those properties to be disposed of will be subject to an individual marketing / disposal strategy designed to maximise return on the particular asset.

Furthermore if following evaluation recommendations are required regarding future investment in an asset, these will be presented to Council and recommended to form the Long Term Plan 2018-2028.

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 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. Councils 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)

Service Area	Asset
Recreation	Public cemeteries
Land transport	Roading system as a whole
Water supply	Water supply system as a whole
Wastewater disposal	Waste water drainage system as a whole
Solid waste disposal	Hokio landfill
Libraries	Levin library – Te Takere
Property	Pensioner flats as a whole
Storm-water	Each storm-water drainage system as a whole

Property Classifications

Officers have reviewed the initial list provided by the Property Group and have made some revisions most obviously this has been the movement of Civic Buildings from non-core to core and none-core on the basis of its emergency management function.

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. For instance though endowment land might be classified as non-core

it may not be possible to dispose of it legally or without significant additional legal costs. In this regard it may not be feasible to dispose of some classifications of land at all. Similar provisions relate to gazetted land under the Reserves Act, and will also apply to those areas fulfilling important roles in delivering HDC's service related outcomes established by the LTP and other strategic Council documents.

Table 2: Property Classifications drawn from Strategic Asset Review (Property Group, Sep 2014)

Category of Property	High Level assessment	Reason for Classification
Core		
Drainage & Sewage	Core	Core infrastructure
Cemeteries	Core	LTP LOS. Currently LA's 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
Core & non-core		
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 Takere)	Core & non-core	LTP LOS. No other provider
Miscellaneous properties	Core & non-core	LOS (variable)

Reserves & Parks	Core & non-core	LTP Level 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.
None- core		
Commercial buildings and Land	Non-core	Not core business
Endowment	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
Focal Point	Non-core	Not core business
Rural Leases	Non-core	Not core business
Subdivision	Non-core	Not core business

Overview of Horowhenua District Councils Property Holdings

Based on the above information it is possible to identify an approximate value for the assets in each of the three broad property categories. However it is important to note that the analysis should only be used as a high level indication of those properties in each category and their possible value. The values included in the assessment were sourced from draft valuation numbers based on IPSAS 16 and 17 valuations as at June 2014. The values are rounded to the nearest \$1,000.

Table 3: Summary of HDC property holdings by classification.

Category of Property	Combined Value
Core properties	\$22,768,000
Categories containing both core and non-core properties	\$50,991,000
Non-core properties	\$27,782,000
Total	\$101,541,000

It can be seen from the above summary that approximately 27% of Council's property portfolio may not be delivering in respect of its strategic plan or community outcomes, with a further 50% that may or may not be contributing to its outcomes. Considering Council's desire to maximise its return on assets and reduce debt there is a pressing need to rationalise its property portfolio.

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.

Proposed 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 2: Property Disposal Decision Matrix), and

(b) assess it according to a standard set of criterion (Appendix 3: 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 4)** and it will be disposed in line with the **Property Disposal Process (Appendix 5)**. Alternatively should there be good reason to acquire the property it will be done so via the **Property Acquisition Process (Appendix 6)**.

APPENDIX 1: Properties Identified for Sale via Council Resolution (05.08.2015)

Location	Legal Description	Status
Group 1 Properties		
82 Oxford Street Levin	Lot 33 DP 2175	HDC
Strip on Johnston Street, Foxton	Sec 652 Town of Foxton	Sold
Main Street Service Lane, Foxton	Lot 2 DP459341	HDC
Depot House, Hokio Beach Rd.	Lot 2 DP48902	HDC
Former drainage reserve Trafalgar St.	Lot 42 DP 18132	HDC
Adjacent to Boys Brigade, Foxton Beach	Lot 695 DP18833	HDC
Durham car-park, Levin	Lot 2 DP 348886	Sold
Group 2 properties		
Albert Road (ex tip site), Tokomaru	Lot 3 DP 318638	Sold
Unformed part of Brown Street , Shannon	Sec 3 SO 36234	HDC
Unformed part of Brown Street , Shannon South	Sec 11 SO 36234	HDC
Part of Buckley Rd, Shannon	Sec 25 Blk XV Robinson SD	HDC
Part of Buckley Rd, Shannon	Sec 29 Blk XV Robinson SD	HDC
Part of Buckley Rd, Shannon	Sec 30 Blk XV Robinson SD	HDC
Part of George St, Shannon	Sec 9 SO 36234	HDC
Part of George St, Shannon	Sec 10 SO 36234	HDC

27 Futter St, Foxton	Lot 12 DP 1779	Sold
72, Cambridge Street Industrial Site	Lot 2 DP361271	HDC
Tararua Road Industrial, Levin	Lot 2 DP308918	HDC
8 Montgomery Street (leasehold land)	Sec 6 Blk Xiv, Levin	Sold

APPENDIX 3: Criteria for Land Acquisition or Disposal

Criterion	Measures/Scores
<p>STRATEGIC RELEVANCE:</p> <p>Is the function the property will fulfil identified as a strategic priority for Council, or is subject of a Council resolution?</p>	<p>10 - The property is required to meet Council's strategic priorities.</p> <p>5 – The property provides the most cost-effective option of several required to achieve Council's strategic priorities.</p> <p>1 – The property is one of several options that could meet Council's strategic priorities.</p>
<p>CORE BUSINESS:</p> <p>Is the function the property will fulfil core Council business?</p>	<p>10 – Core Council business</p> <p>5 – not core Council business but desirable and no one else is supplying the service</p> <p>1 - service could be provided by the private or voluntary sector</p>
<p>LOCATION:</p> <p>In terms of the purpose for which the property is held and utilised:</p>	<p>5 - The location is ideal</p> <p>4 - The location is good to very good</p> <p>3 – The location is good</p> <p>2 - The location is acceptable, but could be better</p> <p>1 - The location is poor. There is only a marginal requirement for the property asset in this location, and/or the location causes some dysfunction in the use of the property</p> <p>(Note that if a property is rejected on the basis of location, it is assumed that a better location is possible)</p>

SUFFICIENCY:

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).
- 1 - The site and/or the improvements are too small but this can be mitigated by improvements costing less than 30% of CV, or acquiring land in close proximity.

Note: "Ideal size" incorporates room for future growth where applicable

<p>FUNCTIONALITY/UTILITY:</p> <p>Is the property fit for purpose?</p> <p>Notes:</p> <p>“<i>Depreciation</i>” is loss in value from any cause. The two main components are physical depreciation and obsolescence</p> <ul style="list-style-type: none"> • “<i>Physical depreciation</i>” is physical wearing out due to use and natural forces • “<i>Obsolescence</i>” is loss in value from causes other than physical decay or wear. It includes functional, economic, legal and technological obsolescence 	<p>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</p> <p>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</p> <p>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</p> <p>2 - Physical depreciation and/or obsolescence is of such a degree that the usefulness of the asset is moderately and noticeably constrained</p> <p>1 - Physical decay and/or obsolescence is of such a degree that the usefulness of the asset is significantly constrained</p>
<p>UTILISATION</p> <p>Is the property well-utilised?</p> <p>Note:</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Note: The percentage utilisation estimated can include an allowance for future growth</p>

<p>PROVISION:</p> <p>Is the property/service already provided elsewhere locally by Council or another provider?</p>	<p>5 – The service fulfils local need there is no other provision locally</p> <p>3 – The service/property will need to be provided temporarily but may be provided by others or from another property longer-term</p> <p>1-The service/property is already provided locally or can be provided locally</p>
<p>COST EFFICIENCY:</p> <p>Can the function be provided in a more cost-effective manner, and is it practical to do so?</p>	<p>5 - No, the function cannot be practically provided in a more cost-effective manner</p> <p>3 - It may be possible to practically provide the function in a more cost-effective manner</p> <p>1 - Yes, the function can be practically provided in a more cost-effective manner</p>
<p>RETURN ON INVESTMENT:</p> <p>Does the function achieve a good return on investment in terms of economic return or strategic outcomes?</p>	<p>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.</p> <p>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.</p> <p>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</p> <p>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.</p> <p>1 - The financial return from the property is less than 50% of the fair market return or expected returns in line with Council policies.</p>
<p>CAPITAL COSTS:</p> <p>What are the capital costs required to maintain the property in a state fit for purpose?</p>	<p>5 – IEA greater than 67% of NBS; or capital costs are < 6% OF CV over the next ten years.</p> <p>4 – IEA greater than 34% of NBS; or capital costs are between 6-10% of CV over the next ten years.</p> <p>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.</p> <p>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.</p> <p>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.</p>

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

Landbanking for future use for a core activity/purpose	<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">1. The future need for the land/buildings has to be identified in the relevant activity plan2. 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 resolution3. If the landbanking strategy is more than two years old, the Activity Manager needs to confirm that it is still current/valid
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Landbanking to initiate future development	<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">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 resolution2. If the landbanking strategy is more than two years old, the Activity Manager needs to confirm that it is still current/valid
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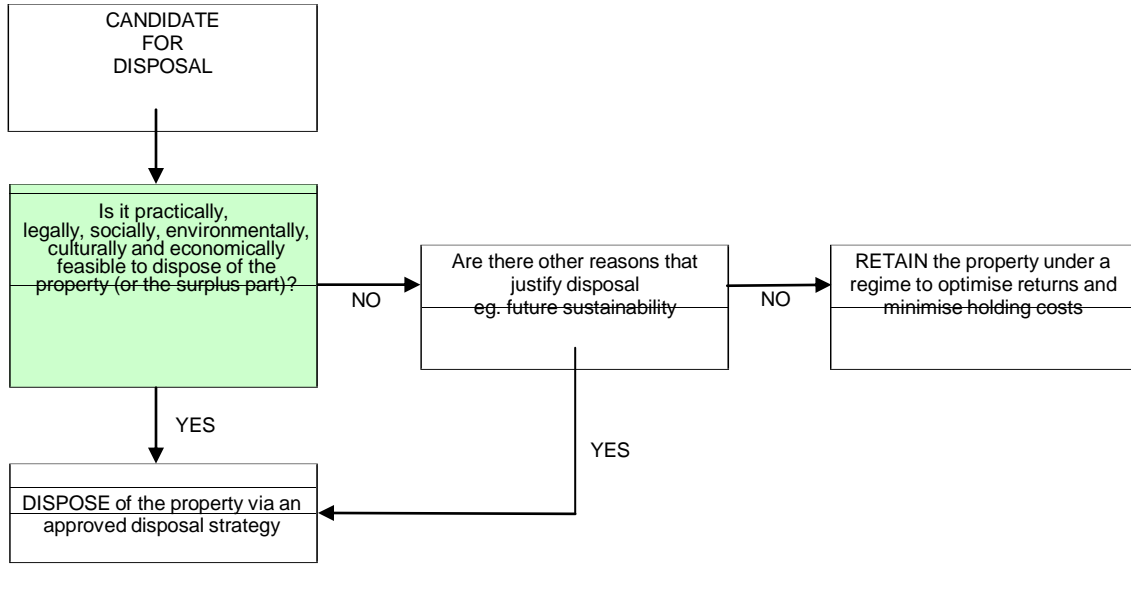
For properties that have been landbanked to initiate future development, determining whether the sale of all or part of the property to a private party (subject to appropriate covenants) would achieve the purpose for which it is being held

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.

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:

“to promote the social, economic, environmental and cultural well-being of communities, in the present and for the future”

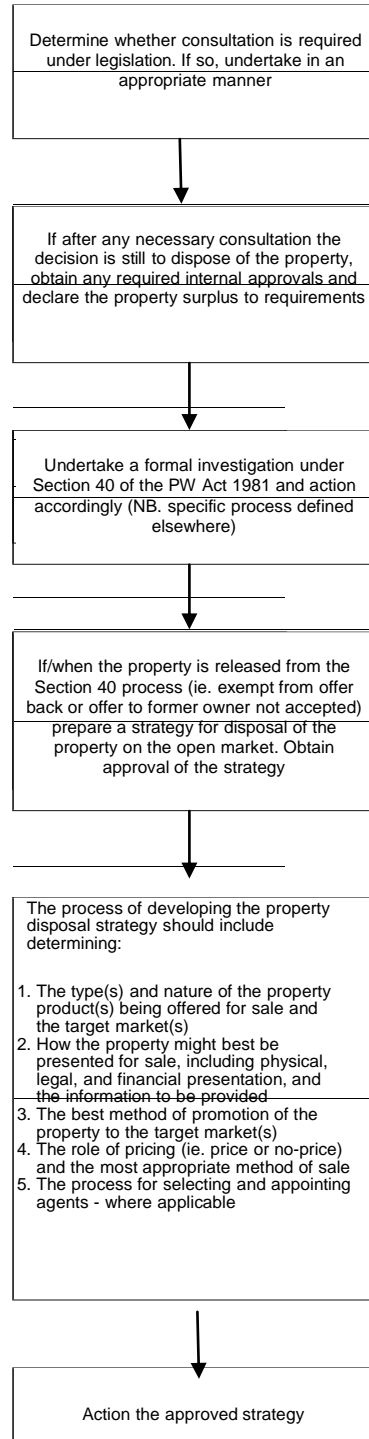
APPENDIX 4: Feasibility Factors in Property Disposal



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
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APPENDIX 5: The Property Disposal Process



Appendix 5: Property Acquisition Flowchart

