BEGA VALLEY SHIRE COUNCIL

Land Investment Strategy

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Executive Summary

The outcomes of the IPART final report on Local Government Revenue Raising Framework and Council's Financial Strategy in 2009, as well as preliminary work associated with the asset and financial sustainability review in 2010, promotes the identification of alternate revenue sources to augment/offset traditional funding sources of local government – such as rates. The combination of land development, lease, sale or property/development contributions are emerging sources of 'other revenues' for local government.

The purpose of this strategy is to promote opportunities and identify actions to sell, develop, lease or partner with other parties to realise one-off or perpetual financial or community returns, as an alternate to using general rate revenues.

Councillor workshops associated with land and property holdings and the draft CLEP have identified parcels of council land and infrastructure that may be capable of sale, leverage or perpetual returns to varying degrees, and potential sites to retain or acquire for strategic purposes.

The Asset and Financial Sustainability Review report prepared by Professor Percy Allan and his consortia of consultants recommended Council 'exploit commercial opportunities (e.g. leasing property, joint ventures, PPPs); and sell surplus or low priority assets (e.g. land, buildings).

Councillors also noted the scale of unformed crown or paper roads in the Shire, that are unlikely to service developable land, or indeed may be better placed within a development and privately owned or constructed.

The Land Investment Strategy and Policy outlines an approach to explore those opportunities. It promotes the establishment of property registers, adoption of policy, and utilisation of specialist advice to identify best use and return options for council land holdings.

Objective

To promote opportunities and identify actions to sell, develop, lease or partner with other parties to realise one-off or perpetual financial or community returns, as an alternate to using general rate revenues for community infrastructure.

1 Background

1.1 Financial Strategy

The new Local Government legislation in 1993 freed up councils to embrace a ‘maximalist’ (people servicing) role, yet by restricting taxes to property rates and retaining rate pegging and regulated fees and charges, in reality, Local Government’s capacity has remained constrained to a ‘minimalist’ (property servicing) role. In the absence of a wider tax base and constraints on other sources of revenue, councils need to curb their recurrent spending ambitions until they have overcome the shortfall in their capital spending on infrastructure renewals (especially roads, pavements, kerbing, public places, etc). In part, the Bega Valley Shire Council embraced that approach through the independent Operational Examination in 2006 – rationalising services, operational facilities and staff, and applying rate variations to build financial capacity to maintain infrastructure and services such as libraries and life guards.

In 2010, Council commissioned further examination of its asset (infrastructure) and financial capacity to support community and government expectations on a 20 year horizon. Setting a series of scenarios, that examination by Review Today illustrated the asset maintenance gap and the services gap should current funding remain. The Review Today report recommended, and council adopted in principle, the ‘responsible scenario’ comprising a set of financial goalposts and revenue/expenditure levers to curtail the asset gap and maintain services in accord with population growth. Council and the community will consider reordering spending priorities, asset standards and alternate revenue options. That examination and community discussion guides the preparation of the Asset Strategy and Financial Plan.

When Council adopted the Financial Strategy in 2009, on balance, it considered Bega Valley Shire Council should position itself as an Optimalist Council – ie ‘*champions of their areas and as such should take a leadership role in harnessing public, NGO and private resources to promote particular outcomes rather than attempt to fund and operate local initiatives on their own.’*

As an Optimalist Council, we should further examine our ability to bring about a mix of services, infrastructure and facilities within the financial capacity of the community, which may include: using council’s monopoly to financial advantage, leverage council’s capacity in high volume, transaction support services; ‘brokering’ services provided through other agencies; leveraging Council infrastructure to facilitate private development investments; or in some cases being a ‘catalyst’ of investment through introducing or developing council property in the market.

1.2 Financial Strategy Principles

A number of principles were established in the Financial Strategy to expand revenue streams, reorder spending priorities and match revenue streams to expense streams.

To fund new public infrastructure and facilities, the Financial Strategy proposed a mix of the following:

- **Public Land Assembly**

  Assembling Council-owned public land to facilitate development interest or sale with proceeds used to provide infrastructure or facilities. This may include creating additional footpath, carpark or reserve space in town centres for commercial licence and lease, with funds used to maintain those new facilities.

- **Commercial holdings**

  Facilitate development of council-owned real estate or commercial holdings to generate cash and long-term returns on investment. This may be through direct conditional sale, lease or partnering with a developer under public private partnership regulations. Those returns may seed other commercial acquisitions or developments, or acquire other community land or facilities strategically appropriate to the demography of the population and geography of the shire.

- **Crown Lease**

  Utilise leases or development agreements on crown land under Council care and control to provide public infrastructure or facilities on those crown lands.

Council has resolved to:

- prepare a land investment strategy and policy incorporating the above opportunities

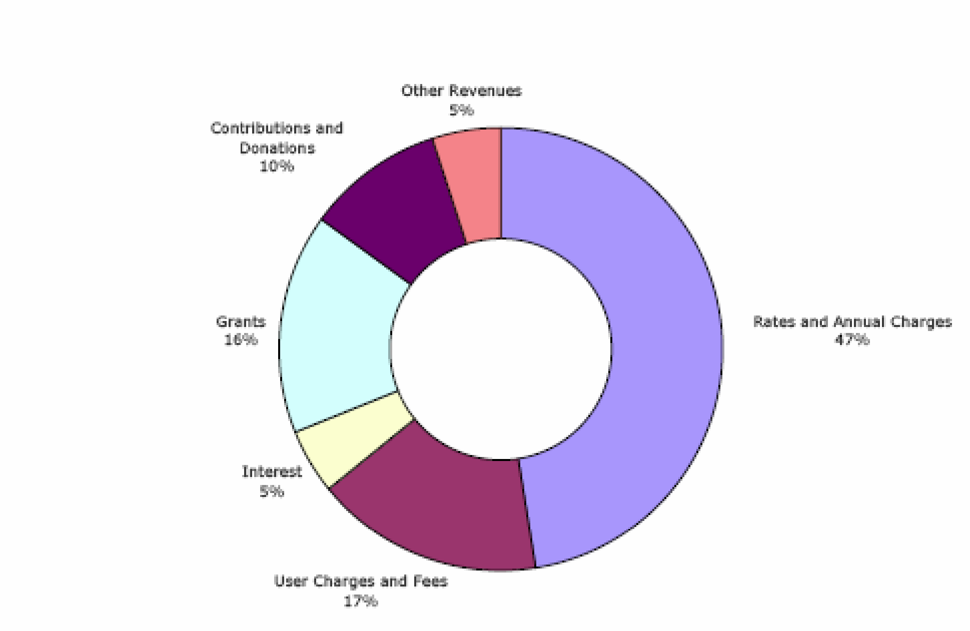
- negotiate to leverage Council carpark, road reserves and airport precinct to facilitate commercial redevelopment, traffic and carparking improvements; and upgrade airport facilities through renewal of airport lease to improve aviation, tourism accommodation, long stay and long vehicle parking and VIC facilities.

Economic analysis has been commissioned of development options, residual value and uplift of key CBD sites owned by council, to guide timing of entry to market to catalyse or coincide with adjacent private commercial developments.

1.3 IPART Revenue Review

IPART published its final report on Local Government Revenue Raising Framework in 2010. The report identified councils seek alternate revenues – in line with recommendations from Local Government Inquiry into Financial Sustainability by Prof Allan (LGI 2006) and Council's asset and financial sustainability review 2010.

On average, local councils rely on the following revenue sources to fund services and infrastructure. Bega Valley Shire Council 2010 accounts indicated: rates 46%, user charges 20%, interest 3%, and operating and capital grants and contributions 31%. An area of opportunity is to boost 'other revenues' such as property lease, sale or development.



1.4 Land Investment Strategy

During 2008 – 2010, Councillors held workshops considering the mix of Council's land holdings across the Shire. Those properties ranged from surplus parcels of land or part reserves, some of which require reclassification and/or rezoning through the comprehensive LEP (CLEP), to substantial holdings that are capable of development, joint venture or sale. The release of the draft Land Investment Strategy has been delayed until the NSW Government authorised the exhibition of the CLEP.

Council has a mix of land holdings that are capable of sale, lease, development or leverage. The property audit and valuations will identify the potential 'real estate' capable of divestment or investment.

The purpose of this strategy is to promote opportunities and identify actions to sell, develop, lease or partner with other parties to realise one-off or perpetual financial or community returns, as an alternate to using general rate revenues.

It is proposed part of the initial returns from sale of surplus operational property identified in the property audit be utilised to 'seed' investment in other land development projects, placing proceeds into a 'property revolving fund'. In that way, it is proposed Council maintain a real estate portfolio to continue to generate development or lease returns.

A schedule has been prepared listing all surplus property or real estate organised into the following groups. That Schedule is Attachment 1:

- Community or operational classified land and zonings
- Freehold or trustee ownership status
- Sale, lease, develop, joint venture, or leverage options
- Key sites or corridors to retain, acquire or condition through development applications

The Schedule has been coded to reflect land options:

	Initiate Sale Process
	Initiate sale process following CLEP
	Council develop, joint venture, lease
	Further investigations with adjacent infrastructure
	Development partnerships / inkind
	Land Swaps
	Other infrastructure development - reservoirs etc

2 Property Register

A Property Register of holdings has been prepared based on the attached Schedule and has formed the basis of the Land Investment Strategy that recommends properties for reclassification, sale, lease, development or holding as a strategic asset.

In conjunction with the Shire wide review of land valuations undertaken by NSW LPMA (Valuer-General), it is proposed to commission a property consultant to affirm potential uses and values for those properties for Council's future consideration. This may include assessment of residual values and effect of any uplift in zonings. A report on Council's Merimbula CBD landholdings was prepared in 2010.

3 Infrastructure Asset Register

As programs of streetscaping and urban foreshore improvements are undertaken, opportunities to lease roads, paths and reserves will be explored. These include leasing for kiosks or footpath cafés. These areas may be identified in the DCP public domain schedule.

As also discussed at workshops on traffic and carparking strategies, Council roads or carparks in strategic CBD positions may be used to leverage commercial redevelopment and improve traffic and pedestrian thoroughfare and carparking arrangements. This may include the leasing of airspace above carparks to enable commercial developments. Lease revenues may then service debt for traffic and carparking or supplement development contributions.

New revenues are required to service debt used for upgraded or expanded (new) infrastructure or facilities in accord with the Responsible Scenario of the Review Today report adopted by Council in February 2011.

Substantial sale or lease proceeds have or can be negotiated leveraging Council road reserve and carparking assets. The following examples have or may be pursued:

- The sale of part Zingel Place to facilitate the Woolworths Bega redevelopment.
- The sale/lease of Main Street Merimbula buildings to facilitate the relocation of the Library, basement carparking and the construction of a service road off Sapphire Coast Drive behind Main Street, and overflow/long vehicle parking near Berrambool.
- The sale or lease of Palmer Street carpark and/or acquisition of Mobil Service Station site to facilitate Market Street bypass and decked carpark, as well as commercial redevelopment of the Mobil site. Undersupply of car spaces by new development will attract contributions that may be used to deck Alice St carpark.
- Introduction of pay parking in high demand/high turnover carparks.
- Widening footpath blisters through streetscaping or negotiated through redevelopment of adjacent commercial sites, to facilitate leasing of footpaths for commercial use.

An Infrastructure Asset Register of roads, paths, carparks, reservoirs and the like will be prepared to optimise best value returns from transport infrastructure.

Further examination of crown or paper roads unlikely to be subject to or support development, will be undertaken in conjunction with the Asset Strategy and transport asset management plan.

4 Rentals Register

A number of commercial buildings are also held by Council, some of which are let for community use at less than commercial rentals. Council has already established a position where the value of a commercial rental will be realised and equivalent donation made to recognise the net contribution made to the tenants – often community groups or VIC's.

A mix of licences and leases are used to facilitate best use of council owned or controlled properties.

Council has adopted a rentals and rebate policy to calculate rebates for relevant community organisations. A Rentals Register will be prepared to manage and monitor leases and licences to optimise financial returns.

5 Commercial Assets

The expiry of the Merimbula Airport lease in 2012 and deregulation of the Sydney route in 2013 presents an opportunity not only to negotiate upgraded commercial aviation travel to the shire, but appropriate upgrades to runway, terminal and aviation-related accommodation and servicing. Long stay vehicle parking and a VIC/cultural interpretive centre may be incorporated into that renewed development lease.

Opportunities to establish a business park within the airport precinct and/or on the eastern side of Arthur Kaine Drive opposite the airport should also be explored.

Leveraging council land on Arthur Kaine Drive opposite the airport for tourism accommodation or national park offsets are under discussion. State planning and environmental agency negotiations will be involved. A separate Airport Precinct Strategy has been prepared.

Council has recently taken up licences for childcare centres in Bega and Eden, and have opportunities to expand. Similarly Council assists the operation of aged care accommodation – that field may present another area of business expansion.

Business Plans for the Eden and Bermagui Caravan Parks had been prepared and feasibilities into expanding into other caravan parks were explored to enable net returns from parks to be invested in Council controlled public reserves in the Shire. The decision to explore opportunities to expand caravan park holdings for recreation infrastructure based on plans of management, has resulted in LPMA assuming management of council caravan parks, with annual 'dividends' of around $300k/year invested in renewal and improvement to crown reserve facilities from 2011.

6 Return on Assets

The Water and Sewerage Strategic Business Plans promote a rate of return (ROI) ~ 1% on those assets, allowing for depreciation to cover current and future asset replacements. The ROI may be used as a guide for dividend payments from the Water and Sewer Funds to the General Fund. Other opportunities to gain a rate of return on infrastructure will be explored. While ROI may be expressed in financial terms, it is proposed a Return on Assets (ROA) be developed to reflect ‘best value’ using triple bottom line (TBL) principles.

7 Strategic Acquisition or Retention

Through the CLEP process, a number of sites may be identified that may be of long term strategic benefit to hold in public hands – such as urban lots that may form a future road connection, or rural lots that may form part of a foreshore protection plan promoted by government. Proceeds from land sales, planning agreements or conditioning of development applications, may be used to acquire suitable property for strategic land use, infrastructure or environmental purposes.

8 Socio-Economic

Some larger parcels of council owned operational land, such as Bega and Eden, or its caravan parks, may be used to support affordable housing or tenancy initiatives promoted by government or NGO’s. Similarly, some properties may be well placed near energy and telecommunication grids to facilitate business or technology incubators or call centres, or be offered to accelerate high speed broadband rollout.

Council may also undertake civil works on private property to assist NGO developments (such as LALC) in exchange for part of that or other property.

The Business Growth and Affordable Housing Strategies are reference points.

9 Position

Council has a draft position statement on population growth and property:

‘Council should manage a sustainable population based on built infrastructure capacity, economic capability and natural resource capacity. Aggregation of population in centres capable of servicing, connection or upgrade by government of electricity, telecommunications, education or health is supported. Council will promote land subdivision activity and low density multi unit development, to increase rateable properties and properties connected to utilities, and thus efficiency of investment in infrastructure.’

10 Land Investment Policy

Background

Council is prohibited by regulation from investing in other than certain specified financial instruments or land. It is also required to be prudent. Land investment can deliver a higher rate of return than cash, but it is also less liquid and may also be higher risk.

Council has a number of parcels of valuable land, some of which are of limited strategic importance. Their significant financial value warrants careful consideration of how best to manage them in the long-term financial interest of the community.

Objective

To establish alternate revenue streams to rates

Approach to Land Investment

In accordance with the Financial Strategy, Council will use existing land holdings (non-community land) to leverage investment or strategic outcomes.

This may include selling or developing 'employment lands' (commercial, industrial) or residential lands to generate returns to enable investment in infrastructure (such as the construction of the Merimbula CBD Bypass) or to act as a catalyst to generate private investment that create jobs or a range of services that normally require residents to travel outside the Shire. Additionally, this may involve entering into partnerships with the private sector to develop those lands or provide that infrastructure.

Council may also use funds from land investment, or use its land holdings to leverage acquisition, of other land critical to the orderly development of important urban or environmental areas. Examples may include acquisition of access corridors in CBD or around foreshores.

Council may use returns from its land holdings to supplement its revenue sources and minimise the demand for increasing rates above rate-pegging, or reducing services.

Council may use its land or other property to seed affordable housing or business incubation initiatives, through low entry lease and portion of turnover or other negotiated returns, maintaining the property in council ownership.

Council may explore opportunities to gain a rate of return on infrastructure , noting ROI may be expressed in financial terms, and a Return on Assets (ROA) be expressed to reflect ‘best value’ using triple bottom line (TBL) principles

Deeds of agreement or easements may be used to not compromise the future serviceability or developability of council property, whilst enabling access and development of adjacent property.

Returns from land holdings may be either direct cash (through land sale), infrastructure or environment offsets (such as library facilities), or long-term returns through leasehold or share of turnover of developed and managed sites. The annual returns are likely to be required to support loan payments for the facilities and projects identified in the Long Term Financial Plan.

Land holdings may be defined as follows:

Strategic:

- Land that is held in order to meet a non-financial community objective. Examples include public open space, land fill, sewerage treatment, road reserve, and council buildings.
- Land that is surplus to requirements.
- Land identified as no longer required for strategic purposes but not necessarily falling into the category of investment. This might be divested to enable a more appropriate use. The Council receives the proceeds of the sale and also gains the annual rates revenue.
- Land or buildings used to facilitate private or government investment in affordable housing or business initiatives

Investment:

- Land held by Council for financial gain with no other community objective in mind, including land offset in exchange for public infrastructure developed by private sector

Land Creation:

- Land converted from community land or road reserve to a commercial use, such as land swaps or leasing road or public reserve for commercial purposes

- Council may also undertake civil works on private property to assist NGO developments in exchange for part of that or other property

Infrastructure

- Infrastructure assets capable of sale, lease or incentivising private development

- Returns from infrastructure leases or licences may be used to maintain those assets or service debt for those assets

9 Conclusion

In accord with the Financial Strategy, the Community Strategic Plan and associated Long Term Financial Plan, council should explore additional and alternate revenue sources to fund services and infrastructure. Council has significant and strategic land holdings and infrastructure capable of higher rates of return – being a financial return on investment or community return on asset.

Land values and best use options advice will be obtained for all properties identified in the CLEP or infrastructure identified in Registers that are capable of sale, development or lease; or facilitating, supporting or incentivising private investment or development.

Once values and options are known, council should establish a notional property value to retain on its books, updated through actual or adjacent site valuations coinciding with land re-valuations undertaken on three year cycles by NSW LPMA (Valuer-General).

Proceeds from sales may initially be placed in a ‘property revolving fund’ to seed future property investments, identified in the Delivery Program and Operational Plan. Returns from commercial and infrastructure leases may be used to maintain those assets or service debt used to establish or upgrade those assets.

Through the CLEP process, a number of sites may be indentified that may be of long term strategic benefit to hold in public hands – such as urban lots that may form a future road connection, or rural lots that may form part of a foreshore protection plan promoted by government.

The Land Investment Strategy will inform the Financial Plan, Asset Strategy and ultimately the Community Strategic Plan.

10 Recommendations

1. Council engage consultants to identify current values, best uses, options, residual value, and uplift as result of the CLEP

2. Council engage consultants to develop and warm the market, and prepare sale or head lease documentation

3. Council establish a ‘property revolving fund’ from initial property sales to seed fund other property developments and initiatives, maintaining a notional land value on its balance sheet equivalent to land values assigned by Valuer-General to properties listed in the attached Schedule.

4. Council establish Property, Infrastructure and Rental Registers

5. Council identify and market suitable sites to stimulate affordable housing and high technology business enterprise

6. Council identify key sites to hold/acquire via the CLEP process

7. Council confirm the Land Investment Policy