

20150520 Item 16.2.1 Report UPDATED Redlands Investment Corporation - Amendment to Financial Treatment of Land Transfers

Objective Reference: A190410
Reports and Attachments (Archives)

Authorising Officer: Nick Clarke
General Manager Organisational Services

Responsible Officer: Peter Kelley
CEO Redland Investment Corporation

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PURPOSE

1. To approve the amendment to the financial circumstances in which pre-approved land parcels are transferred from Redland City Council to Redland Investment Corporation; and
2. To note the forecasted 2015/16 dividend expectations.

BACKGROUND

On the 26th of November 2014 Council agreed to establish a separate legal entity with the object to buy, sell, develop, manage, lease, license and contract in relation to Council land (16.1.1).

The company was subsequently registered as Redland Investment Corporation Pty Ltd under the Corporations Act 2001 on the second day of December, 2014.

On the 10th of December 2014 Council resolved to advise the Property Company Directors to commence arrangements for transfer of underutilised Council land to Council's property company (15.2.1).

Council resolved on the 25th of March 2015 to note the sequence and dates in which the pre-approved land parcels would be transferred to Redland Investment Corporation over the 2014/15, 2015/16 and 2016/17 financial years.

Land Transfers

The preliminary financial implications for the first bundle of pre-approved land transfers were as follows:

Change in Financial Treatment

The recommendation is that pre-approved land transferred from Council to Redland Investment Corporation be treated as *contributed equity**.

As a result Council's financial compensation for their land contributions to Redland Investment Corporation will be by way of an annually paid dividend.

The significance of this approach for Redland Investment Corporation is that it can build a strong financial position in the important start-up years.

The advantages of a strong financial position are:

- Increases cash position which allows the ability to reinvest in growth (that is, income producing assets);
- Redland Investment Corporation can make decisions proactively instead of reactively;
- From a banking perspective a stronger balance sheet is less risky as Redland Investment Corporation presents good liquidity and is able to meet its financial ratios; and
- Being in a strong position makes it easier to withstand any economic shocks.

In the first three years of operations as well as building a strong financial base, the Board of Directors for Redland Investment Corporation will monitor carefully the financial results when determining the appropriate dividend policy as discussed in the next section.

**Contributed equity* is payments of cash or assets that the owners (for example, Council) have made to the company in order to increase the company's equity.

Dividend Policy

On 26th of November 2014 Council resolved to adopt the Constitution of Redland Investment Corporation (the Constitution).

Redland Investment Corporation will need initially to establish itself in the commercial world, understand growth potential, continually review the scope of its business plan and monitor the forecasted financials to cement its longevity.

At the time of adopting the 2015/16 budget Redland Investment Corporation will endeavour to pay a dividend to Council at the end of 2015/16 financial year.

However, throughout the 2015/16 financial year Redlands Investment Corporations cash cycle and financial result will be carefully studied and in the last quarter of 2015/16 the board of directors will make a final decision on the company's ability to pay a dividend.

ISSUES

From the perspective of Redland Investment Corporation the main issue is that the company creates a strong financial position in the first three years of operations.

The recommended approach detailed above will assist the entity in building a strong balance sheet which is imperative for a new organisations financial sustainability.

There are no issues for Council with this approach because from a group viewpoint there are no financial impacts.

STRATEGIC IMPLICATIONS

Legislative Requirements

The set-up of the company is covered by the *Local Government Act 2009 (Qld)*, *Local Government Regulation 2012* and the *Corporations Act 2001 (Cth)*.

Risk Management

Close attention will be given to the local property market, developer's willingness and demand, population growth, interest rates and construction inflation.

Financial

From a consolidated group perspective there are no financial impacts from these amendments.

People

There are no foreseen people concerns from these amendments.

Environmental

There are no foreseen environmental concerns from these amendments.

Social

There are no foreseen social implications from these amendments.

Alignment with Council's Policy and Plans

The recommendation supports Council's strategic objective to exceed financial targets while delivering outcomes.

CONSULTATION

Consultation occurred:

- General Manager Organisational Services
- Board of Directors – Redland Investment Corporation Pty Ltd
- CEO – Redland Investment Corporation Pty Ltd
- Councillor Mark Edwards

OPTIONS

1. That Council resolves to:
 1. Approve the change in financial treatment for the transfer of pre-approved land to *contributed equity*; and
 2. Note the forecasted dividend policy position for the 2015/16 financial year.
2. Council does not agree with the recommendation or amends the recommendation in some way.

OFFICER'S RECOMMENDATION

That Council resolves to:

1. Approve, the change in financial treatment for the transfer of pre-approved land as **amended** to *contributed equity*;
2. Note the forecasted dividend policy position for the 2015/16 financial year; and
3. Retain this report as confidential in so far as it contains commercial-in-confidence information.