

REDLAND INVESTMENT CORPORATION – REVISED BUSINESS PLAN 2017/18 – 2018/19

Objective Reference: A2624172
Reports and Attachments (Archived)

Attachment: ~~Revised Business Plan 2017/18 – 2018/19~~

Authorising Officer: Andrew Chesterman
Chief Executive Officer

Responsible Officer: Peter Kelley
CEO Redland Investment Corporation

Report Author: Grant Tanham-Kelly
CFO Redland Investment Corporation

PURPOSE

The purpose of this document is to present Redland Investment Corporation's (RIC's) revised business plan 2017/18 - 2018/19 to Redland City Council (Council) for information and noting.

BACKGROUND

Each year RIC prepares a business plan which details its business goals and the plans for reaching those goals.

The business plan proposes a program of products and services for the 2017/18 and 2018/19 financial years and also discusses future goals and initiatives. In the first instance the business plan goes to the board of directors for review and final approval.

Once the business plan has board approval it is tabled at a Council General Meeting for information and noting and typically reviewed in the following December.

The 2017/18 - 2018/19 business plan was approved by the RIC board of directors on the 25 May 2017.

However, due to significant changes it was requested by the board of directors that the business plan be revised earlier than the scheduled December timeframe and taken back for review and final approval.

~~The changes were predominately due to the revising down of the forecasted amount of Council's contribution to the proposed investment fund and the removal of the Cleveland accommodation project.~~

The revised 2017/18 – 2018/19 business plan was approved by the board of directors on 25 July 2017 and is attached for the 18 October 2017 General Meeting.

ISSUES

No issues.

STRATEGIC IMPLICATIONS

Legislative Requirements

No legislative requirements.

Risk Management

No foreseen risk to Council.

Financial

The revised business plan may change the amount and timing of funds made available for distribution to Council during the 2017/18 and 2018/19 financial years.

People

No people impact.

Environmental

No adverse environmental implications.

Social

No adverse social implications.

Alignment with Council's Policy and Plans

This report has a relationship with the following items from the 2015-2020 Corporate Plan:

Key Outcome 6. Supportive and vibrant economy.

6.4 Council receives a return on the community's investment in land to enhance economic and community outcomes.

CONSULTATION

Consultation has taken place with the following:

- Chief Executive Officer - Redland City Council
- Board of Directors – Redland Investment Corporation
- Chief Executive Officer – Redland Investment Corporation

OPTIONS

1. That Council resolves to note this report and attachment.
2. That Council requests additional information.

OFFICER'S RECOMMENDATION

That Council resolves to note this report and attachment.



Redland Investment Corporation Pty Ltd

Revised Business Plan

2017/18 – 2018/19

Prepared by: Grant Tanham-Kelly

Date: September 27, 2017

Document – Version Control			
Version No.	Date	Changed by	Nature of amendment
1.0	15/02/2017	Grant Tanham-Kelly	Initial document
1.1	05/05/2017	Grant Tanham-Kelly	Final document
1.2	25/05/2017	Grant Tanham-Kelly	Final changes from board prior to approval
1.3	27/06/2017	Grant Tanham-Kelly	Final changes before going to Council for noting
1.4	18/07/2017	Grant Tanham-Kelly	First review
1.5	26/07/2017	Grant Tanham-Kelly	Following board meeting recommendations (25/07/17)
1.6	20/09/2017	Grant Tanham-Kelly	Version for Councillor noting (18/10/2017)

The Business	
Business name	Redland Investment Corporation Pty Ltd
Business structure	Redland Investment Corporation is a proprietary company limited by shares
ABN	68 603 164 503
ACN	603 164 503
Subsidiaries	RIC Toondah Pty Ltd and AVA Terraces Pty Ltd
Business location	Level 1 Redland City Council Administration Building, corner of Middle and Bloomfield Streets, Cleveland, Q 4163
Date established	26 November 2014
Business owner	Redland City Council

Note: this document contains confidential material relating the business affairs of Redland Investment Corporation (RIC). Any unauthorised disclosure of material contained in this document may diminish the commercial value of that information and would have an adverse effect on the business, commercial and financial affairs of RIC.



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CONFIDENTIAL

Executive Summary

This business plan is a statement of the business goals and plans for reaching those goals for Redland Investment Corporation ("RIC"). The business plan proposes a program of products and services for the 2017/18 and 2018/19 financial years and will also discuss future goals and initiatives.

It is important to note that the budgeted expected results in the business plan are dependent on a variety of assumptions and the requirement for all planned products and services to be delivered. Given the sensitive nature of our business and the probability of changes, reliance on the 2017/18-2018/19 business plan should be as a guide only.

RIC is a private company and provides the vehicle for Redland City Council ("Council") to investigate and create alternative streams of revenue to strengthen its financial position therefore, RIC's agenda is Council's agenda.

RIC was established to manage selected parcels of Council's underutilised land to gain the best value, while improving use from land assets that did not meet Council objectives. Within the guidelines of Council the business plan will:

1. Place an onus of funding to balance long-term impacts of investment decisions with financial returns.
2. Take into account the broader community needs, including social and environmental impacts.
3. Investigate deploying capital responsibly to stimulate the local economy and create jobs, and,
4. Consider the above with a focus on inter-generational equity.

This business plan proposes that RIC will deliver the following products and services over the 2017/18 and 2018/19 financial years:

1. Property development and land transactions.
2. Management of investment fund.
3. Joint venture administration for the Toondah Harbour project, and,
4. Consulting services.

RIC will focus on its strength in property associated projects over the next two financial years, but will also continue to expand consulting services and proposes to introduce an investment fund, which will include a diverse range of assets. At the time of preparing this business plan no Council approval for the investment fund was in place.

RIC will target delivery of four major property projects over the next two financial years:

1. 9-11 Oakland Street, Alexandra Hills – Construction and sale of 13 town-houses.
2. 521 Old Cleveland Road East, Birkdale - Construction and sale of 13 town-houses.
3. 4-10 Doig and 11-15 Waterloo Streets, Cleveland - Commence delivery of aged care facility, and
4. 18-22 Wynyard Street, Cleveland – Commence delivery of short-term accommodation.

It is important to note that due to the nature of cash flows inherent in property development and land sales, RIC must be cognisant and continually researching and seek opportunities that offer recurrent revenue streams, for example income returning assets.

This business plan is a forward-looking document that also discusses future initiatives which fall beyond the 2018/19 financial year, highlighting the need to look beyond the finite pool of Council's available surplus land.

Future initiatives include:

1. The Capalaba Town Centre Project.
2. Acquisition of investment properties, and
3. Investment in local business opportunities.

The Vision, Objectives, Mission

RIC will work commercially, mainly as a property development company to achieve its vision and mission. As a Council owned company, RIC will be able to optimise development yields and place emphasis on design when delivering projects and therefore development outcomes should better meet community expectations.

RIC can also use its established relationships with Council to ensure any development it is involved with considers broader community needs, which include social and environmental impacts.

Vision:

RIC will be an innovative, responsible and sustainable company that achieves its business objectives and creates value to Council and the Redlands community.

Objectives:

The key objective for RIC is to be commercially successful in the conduct of its activities and efficient in the delivery of all facets of its business.

Council accepts that RIC requires long-term certainty to be a successful business and will implement change for Council.

Mission:

Grow the economy through facilitating development and business opportunities, while supporting local jobs.

Leads the Redlands development industry by delivering high quality, exemplary projects that take into account the environment, community and best practice industry principles.

Balance the long-term impacts of investment decisions with financial returns and consideration of the community's broader needs, including social and environmental aspects.

Manage and achieve Council outcomes.

Negotiate nominated commercial negotiations on behalf of Council and provide a better financial return for the Redlands community.

Focus on creating intergenerational equity for Council and the Redlands community and establish a future fund, to ensure economic gains are used for the long-term benefit of the community.

Build profitable, successful projects and respected relationships with business groups and the community.

Values and behaviours

Safety first – we ensure our own safety and the safety of others.

Ethical and responsible decision making – we honour our commitments and are open, honest and transparent.

Safeguard perpetual financial success – we maintain profitability and control costs and pursue innovation and revenue diversification.

Earn the trust and respect of the customers and the community – we are customer service-oriented and take care to understand Council's and the community's needs.

Promote a positive workplace – we encourage engagement, creativity and acknowledge achievements.

The Market

The areas of business that RIC operates in are predominately property development and land transactions but it is also proposed in 2017/18 to introduce and manage an investment fund on Council's behalf.

This business case covers the next two financial years (2017/18 and 2018/19), so it is important to review the general economics for these time frames, from a domestic and local outlook and determine how the organisation may be impacted by these key indicators.

Domestic outlook

All indicators suggest that the domestic market will remain stable over the next two financial years, which is good news for the property area of RIC.

The recent Australian Government's 2017/18 Budget is expected to return to surplus in 2020/21, with key policy focus on housing affordability, infrastructure, regional development being of key interest to RIC.

The RBA *Statement of Monetary Policy* highlighted that the Bank leave most of its forecasts unchanged, with GDP core inflation to increase gradually to around 2% in early 2018 and with unemployment expected to edge lower.¹

The official cash rate has been at 1.5% since last August and the RBA is expected to keep cash rate on hold well into 2018. The reasons are understood to be that if the RBA cuts rates, it is in danger of further fuelling an overblown housing market, while a rate hike risks depressing an already tepid domestic economy.

Looking ahead, economic growth is expected to pick up gradually to be a bit above potential growth, supported by the low level of interest rates and the ongoing recovery in the global economy.

From an investment perspective, the Australian equity markets have followed global developments in recent months to be around 4% higher since the start of the year. There was also a positive reaction to domestic company profit results.

Financial share prices have continued their upward trend to be around 5% higher since the start of the 2017 year. All these results are in line with the assumptions around expected returns modelled for the proposed investment fund.

Local outlook

The property and consulting services area of the business is particularly reliant on a strong local economy.

The Redland city catchment is very well positioned from a locational, infrastructure and amenity perspective to sustain long-term demand for new residential products including the increased proportion of medium density and attached product.

Located within 20 kilometres from the Brisbane CBD, one of Australia's major cities, the Redland city catchment area provides a major tourism hub, connecting South East Queensland and North Stradbroke Island.

The Redland city population has remained consistent over the past five years (2011-2016) with an average growth rate of 1.11% (or 7,963 people). The projected annual growth rate for the next five years (2016-2021) is forecasted to increase on the previous five years and is 1.36% (or 10,343 people).

Over the period between 2026 - 2041, Redland city is estimated to increase by approximately 15,430 people, which represents an average increase of 1030 people per annum, or an average annual growth rate of 0.6%.

¹ Economics and Markets Review, Queensland Treasury Corporation, May 2017.

Median house prices across the Redland city local government area has shown relatively strong growth long term with a 3.9% per annum increase to \$515K from December 2005 - December 2015.

Proposed developments at the Toondah Harbour and the Weinam Creek PDAs, in partnership with a private developer are significant projects that will stimulate growth in the tourism sector, which will have a flow on impact for the City's economy.

The main areas of growth are expected to be in the suburbs of Alexandra Hills, Thornlands, Capalaba and Victoria Point, with Alexandra Hills recording the largest volume of house sales over the past twelve-month period.

Financial Summary

We may refer to the 'Redland City Group' throughout this document. This follows on from recent discussions with the Council Finance Department where it was agreed to consider investment opportunities not only from a RIC perspective, but also from a consolidated view that is, the Redland City Group (Redland City Council and Redland Investment Corporation).

At the time of preparing this business plan, RIC has a sound balance sheet that continues to strengthen, with no debt and an immaterial amount of liability.

RIC has sufficient cash balances with a forecasted opening balance of \$984K to commence the 2017/18 financial year operations.

If funds are required throughout the 2017/18 and 2018/19 financial years due to cash flow timing constraints, RIC proposes to have a pre-arranged agreement in place with Council at very competitive terms.

We intend to secure debt finance from Council in the 2017/18 financial year which may be required for the construction of the 9-11 Oakland Street project.

Table 1 details the high level financial performance and position for the RIC Group for the 2017/18 and 2018/19 financial years. The RIC Group is made up of Redland Investment Corporation Pty Ltd, RIC Toondah Pty Ltd, AVA Terraces Pty Ltd and a proposed new subsidiary for the investment fund.

Financial	2017/18	2018/19
	Budget	Forecast
Revenue	13,288,400	9,523,488
Expenditure	12,206,968	8,305,500
Result – Profit/(Loss)	1,081,437	1,217,988
Cash at bank	2,223,006	4,283,107
Total assets	24,025,396	19,943,384
Total liabilities	3,690,182	190,182
Total Equity	20,335,213	19,753,201

Table 1: Financial performance and position – 2017/18 and 2018/19

The foremost risk to the delivery of these financial results is the successful introduction of the investment fund in the 2017/18 financial year. In the event of the investment fund does not go ahead there will be an impact on both the Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position.

The next two financial years will be productive times for RIC, with four major projects scheduled (see Table 4).

Revenue is forecast over the next two financial years to surpass the results from the previous two financial years with estimated profits of \$1.10M in 2017/18 and \$1.22M in 2018/19.

Debt and liabilities have been forecast at a conservative level over the next two financial years with liabilities at an average of less than 10% of assets and with minor debt. Cash balances over the next two financial years will be available for future initiatives with any surplus balances held in short-term term deposits.

At the completion of each financial year the Board of Directors will determine whether a dividend is payable to Council, this includes fixing the amount of the dividend and the time and method of payment. The dividend may be payable out of profits, or out of such other amounts and under circumstances permitted by the Corporations Act.

Risk Management Framework

RIC operates under a *Risk Management Framework* to assist in incorporating risk management into the organisations management culture. The key benefit of the risk management framework is to assist in managing risk throughout the business and operations of RIC.

The risk management framework manages the *Strategic, Operational and Project* risks of the organisation. Both the strategic and operational risks are given a risk rating using a likelihood and consequence rating to enable the plotting of the risk on the risk matrix. These ratings are monitored and reviewed on a regular basis generally by the Board of Directors and the Executive Level.

Project risks are at an operational level, and are the individual or unique risks associated with each project. Most often in the case of property development projects. As part of the project decision process, project risks are assessed at each stage (gate) of the project lifecycle².

Measures

RIC Board of Directors has a formal objective and performance agreement with its shareholder called the *The Statement of Corporate Intent*. This agreement includes, key performance indicators covering liquidity, profitability and solvency and has clear targets that RIC must adhere to.

Key Performance Indicator	Description	Target	2017/18	2018/19
Liquidity				
Current ratio (times)	Management of short-term liquidity	> 2.5 & < 5 times	OK	OK
Cash capacity in months	Measure ability to meet short-term working capital commitments	3 months	OK	OK
Profitability				
Increased net profit (%)	Measure performance	5%	OK	OK
Increase in revenue growth (%)	Measure growth in new and existing revenue	5%	OK	OK
Return on equity (%)	Measure return on Council's investments	CPI + 4% CPI + 1% > 10%	OK OK OK	OK OK OK
Solvency				
Debt to asset (%)	Measure portion of assets financed through debt	< 15%	OK	OK
Debt servicing ratio (%)	Ability to repay debt	< 15%	OK	OK
Interest coverage (%)	Indicates level of total revenue committed to funding interest expense	< 10%	OK	OK
Liability to asset ratio (%)	Indicates liabilities as a percentage of assets	< 20%	OK	OK

Table 2: Key Performance Indicators

The forecasted financials in the business case allows RIC to meet all their financial performance targets over the next two financial years.

² Project life cycle = concept stage > pre-feasibility stage > feasibility stage > delivery

Our Business

Key areas of business for RIC are:

1. Property.
2. Investment fund (proposed).
3. Administration – Toondah Harbour, and,
4. Consulting services.

Property

Products or Services

Calculating the return on property projects is critical to knowing how we are performing, or when we are comparing one project to another. RIC sets commercial expectations for property projects and the target expected returns are below in table 3.

Business	Product or services	Description	Target return
Property	Development	Construction, management and provision of a variety of development products with RIC owned land	ROI > 15%
	Council long-term projects	Development management of projects	Margin > 15%
	Land transactions	Selling/exchanging land parcels which may have had minor physical and non-physical works undertaken	ROI > 15% 'as is' ROI > 20% 'prepared'

Table 3: Expected returns for property projects

RIC will target the delivery of four major property projects over the next two financial years, including constructing and selling town-houses, short-term accommodation and a potential aged care facility. Table 4 details the high-level financials and timeframes for the four major projects over 2017/18 and 2018/19 financial years.

Project	Product or service	Investment type	Estimated revenue	Estimated costs	Estimated profit	Start date – end date	Project status
2017/18 financial year							
9-11 Oakland Street, Alexandra Hills	13 Town-houses	Construction and sale on RIC land	\$5.5m	\$5.1m	\$400k	April 2017- June 2018	Project has board approval to delivery stage
4-10 Doig and 11-15 Waterloo Streets, Cleveland	Aged care facility	Sale, share of development JV	\$4.75M	\$3.75M	\$1M	July 2017 – June 2018	Project requires board approval to pre-liminary stage
2018/19 financial year							
18-22 Wynyard Street, Cleveland	Short-term accommodation	Sale or development	\$3.6M	\$2.95M	\$646K	July 2018 – June 2019	Project requires board approval to concept stage
521 Old Cleveland Road East, Birkdale	13 Town-houses	Construction and sale on RIC land	\$4.63M	\$4.1M	\$530K	July 2017 – Sept 2018	Project requires approval to pre-liminary stage

Table 4: Property projects 2017/18 and 2018/19 financial years

Key assumptions

Financial assumptions are a critical component of a business plan and make up what is thought to be important and what cannot be ignored in presenting financial predictions. The following assumptions are used for the planning of property projects and are based on reasonable expectations.

Assumptions	
Observation	Expectation
Qualitative – observed	
Borrowing facility	It is assumed that RIC can borrow funds from Council (if required) at a rate of the QTC effective Rate plus 1.5%.
Product supplied is needed	It is assumed a requirement for town-houses in the Alexandra Hills and Birkdale areas are sustainable.
Sufficient customer base	It is assumed that a required customer base for town-house products are present.
Council environment remains stable	It is assumed that current support from Councillors remains stable.
Future Council land transfers are approved	It is assumed that Council approves transfer of land parcels to RIC as required for future products (Appendix 3 - Future land requirements).

Assumptions		
Quantitative - measured		
Measure	Current rate	Accepted rate
Inflation rate	1.5%	2.0% - 3.0%
Borrowing rates (internal)	3.94%	3.0% - 5.0%
Rate of return (development)	15%	10% - 20%
Rate of return land transactions	15% - 20%	15% - 20%
Adequate capital	RIC has sufficient capital with no current debt	Within KPI targets

Table 5: Key assumptions

Future property products

The business plan is a forward-looking document and provides some early details available for future property initiatives (table 6). As these proposal progress through the project life cycle greater details will become available.

It is important to note that there will be future requirements for the transfer of Council land and assets to RIC for the Capalaba 'Town Centre' project. Full land and asset details can be found in *Appendix 3* at the end of the business plan.

Project	Description
Capalaba 'Town Centre' project	Due to size and location of RCC's holdings in the Capalaba Town Centre the opportunity exists for a PPP to create true entertainment/service/commercial – mixed use precinct.
Acquisition of investment properties	<p>RIC will investigate strategic property acquisitions to generate alternative opportunities and revenue. Utilising a combination of industry relationships and technology, RIC will investigate and generate opportunities through targeted outcomes in line with agreed mandate.</p> <p>The strategy allows consideration for RIC to acquire, development and dispose of investment properties within, but not limited to, the Redland's Region.</p> <p>Proposed investments will be reviewed through a series of set benchmarks to identify risk and return in accordance with a set framework based on investment return maintaining an optimum balance of short, medium and long term property investments ensuring growth and financial capacity to further invest and develop.</p>
Investment in local business opportunities	From time to time RIC is asked to consider assisting and potentially investing in local business opportunities. These opportunities are on an ad hoc basis.

Table 6: Future property initiatives

Investment fund

During the 2017/18 financial year, RIC is proposing to introduce a diversified investment fund on behalf of the Redland City Group. We propose this new revenue stream start with a balanced investment strategy which has been thoroughly workshopped with our shareholder Council.

The purpose of this initiative is for RIC to borrow funds from Council and prudently invest in a manner that improves the long-term financial position of Council.

It is proposed that during the 2017/18 financial year Council and RIC will agree on an appropriate loan agreement which will dictate the terms and conditions of the arrangement.

RIC has sought external advice from financial experts and fund managers, and is confident that potential attractive returns can be achieved over the next five years at an acceptable risk level.

RIC have coordinated workshops on the investment concept with Council on a variety of occasions in the 2016/17 financial year, which continues to build good momentum toward establishing the strategic goal for the fund.

In the 2017/18 financial year, RIC will hold final workshops with the Council to determine the type of assets held in the funds, required levels of liquidity, accepted risk profile and expected returns.

Once Council decides on the type of asset and the form of expected return from the fund, the exact modelling can be completed and will be documented in the mid-year business plan review.

In this business case, we have assumed that the initial investment by Council during the 2017/18 financial year be advanced to RIC by way of an internal loan with a premium added to the existing rate Council receives on its cash holdings.

At the time of preparing this business case no formal approval from Council was in place to commence the investment fund. If the invest fund initiative and loan arrangement is not accepted and approved by Council it will result in changes to RIC's financial statements.

Products or Services

For the 2017/18 – 2018/19 Business Plan, it is assumed that RIC will have a long-term view and select a fund that is made up of for example, high-quality growth shares and/or commercial investment properties.

This will ultimately give the Redland City Group an annual return greater than the current interest rate they receive on their surplus cash from Queensland Treasury Corporation (see table 7).

Business	Product or services	Description	Target return
Investment strategies	Performance of investment fund	Diversified portfolio: - Growth equities - Commercial investment properties	CPI + 4% CPI + 5%

Table 7: Expected returns for investment fund

Key assumptions

The following assumptions have been used for forecasting the investment fund and are based on reasonable expectations.

Assumptions		
Qualitative – observed		
Observation	Expectation	
Investment fund	<p>It is assumed that Council during the 2017/18 financial year will lend funds to RIC at a rate of 1.5% + the existing QTC effective rate.</p> <p>As a conservative measure the returns in the first year (2017/18) have been calculated on a half year only.</p> <p>It is assumed that investment fund will sit in a subsidiary of RIC.</p> <p>It is assumed RIC will invest in high quality growth shares and/or commercial investment properties in the mid to long-term.</p> <p>Financial information for the investment fund is included in the RIC Groups' financial statements.</p>	
Investment return	It is assumed that forecasted returns in 2017/18 and 2019/19 are achievable.	
Council environment remains stable	It is assumed that current support from Councillors remains stable.	
Quantitative – measured		
Measure	Current rate	Accepted rate
Cash rates	1.5%	1.5% – 2.5%
Inflation	1.5%	2.0% - 3.0%
Term deposits	2.75%	2.5% - 3.0%
Investment returns (financial assets)	6.0% - 7.0%	CPI + 4.0%
Investment returns (commercial properties)	6.0% - 9.0%	CPI + 5.0%

Table 9: Key assumptions

Administration – Toondah Harbour

In 2013 the State Government declared Toondah Harbour a Priority Development Area (PDA) at the request of Redland City Council with the aim of developing a new waterfront destination that will change the face of the Redlands.

Walker Group Holdings Pty Ltd has secured the rights to re-develop Toondah Harbour and is responsible for designing, financing and constructing the project.

Economic Development Queensland and RIC on behalf of Redland City Council will be the landowners and will work closely with Walker Group to implement a shared vision for the project over the next 15 to 20 years.

Redland Investment Corporations role will manage the *Joint Venture Agreement* and provide a variety of services to the venture parties (Redland City Council, Economic Development Queensland and Walker Group Holding Pty Ltd) and receive an agreed margin for these administration services.

The venture parties have agreed to co-operate in an *Unincorporated Joint Venture* to govern their relationship in the project.

We remain confident the Toondah Harbour project will proceed however, the decision on the environmental assessment is currently with the Federal Government Department of Environment.

The proponent is working closely with all levels of Government to progress the environmental application process. We would not expect administration fees to start flowing in this project until the 2018/19 financial year.

Products or Services

Business	Products or services	Description	Target return
Joint Venture Administration	Joint Venture administration services	Management of the <i>Unincorporated Joint Venture</i> for the development of Toondah Harbour PDA	Margin > 15% + costs

Table 10: Expected return for administration services

Project	Product	Investment type	Estimated revenue	Estimated costs	Estimated profit	Start date – end date	Project status
2017/18 financial year							
Joint Venture Business	Administration services	Fees and charges	Minor fees expected in 2017/18			On-going	Venture Administration Agreement in place – budget to be presented to Joint Venture Committee
2018/19 financial year							
Joint Venture Business	Administration services	Fees and charges	\$166K			On-going	Venture Administration Agreement in place

Table 11: Administration services for 2017/18 and 2018/19

Key assumptions

The following assumptions are used for forecasting the administration service fee and are based on reasonable expectations.

Assumptions		
Qualitative – observed		
Observation	Expectation	
Council environment remains stable	Current support from Councillors remains stable.	
Toondah Harbour goes ahead	Legislative environmental requirements are met in 2017/18 and project is at go stage.	
Quantitative – measured		
Measure	Current rate	Accepted rate
Margin + costs	15%	10% - 20%

Table 12: Key assumptions

Consulting services

Consulting services is the professional services arm of RIC and our goal in the next two financial years is to grow this part of business to include both internal and external customers. This form of recurrent revenue helps mitigate cash timing issues that are inherent with our development projects.

RIC already offers professional services in areas such as brokerage and project management and has had successful outcomes over the past two years. For example, the brokerage of three acquisitions on behalf of Council.

RIC uses a variety of commercial charge out rates which are dependent on the type of service provided, examples included in our *Service Level Agreement* with Council are as follows:

- % of project cost.
- % of sale price.
- a flat rate and, and,
- an hourly rate.

In all services in Table 12 the full-cost recovery principle is applied.

Products or Services

Business	Product or services	Description	Target return
Consulting services	Brokerage fees	The facilitation of a transaction between a buyer and a seller	2.5% of purchase price plus incurred costs
	Project management services	Delivery of project/s to customers' requirements	2.5% of project cost plus incurred costs
	Professional services	Provide a range of professional services, including property/facilities management	Margin > 15% plus incurred costs

Table 13: Expected returns for consulting services

Expectations over the next two financial years by RIC, is to increase this area of the business to help with the cash flow timing issues associated with the property area of the business. Table 14 details the expected results from consulting services in 2017/18 and 2018/19.

Project	Product or service	Investment type	Estimated revenue	Estimated costs	Estimated profit	Start date – End date	Project status
2017/18							
Commercial secure car park	Parking fee service	Fee and charge	\$75k	\$23k	\$52k	November 2016 – present	Board and Council approval in place. Formal agreement required.
Cleveland Plaza	Rental revenue retail and professional	Fee and charge	\$265k	\$106k	\$159k	September 2017 - present	Board and Council approval in place
Professional services	Project management, brokerage and professional services	Fees and charges	\$295k	\$250k	\$45k	On-going	Corporate SLA in place
2018/19							
Commercial secure car park	Parking fee service	Fee and charge	\$77k	\$25k	\$52k	On-going	Board and Council approval in place. Formal agreement required.
Cleveland Plaza	Rental revenue retail and professional	Fee and charge	\$318k	\$111k	\$207k	On-going	Board and Council approval in place
Professional services	Project management, brokerage and professional services	Fees and charges	\$420k	\$357k	\$63k	On-going	Corporate SLA in place

Table 14: Consulting services for 2017/18 and 2018/19

Key assumptions

The following assumptions are used for forecasting consulting services and are based on reasonable expectations.

Assumptions	
Observation	Expectation
Qualitative – observed	
Council environment remains stable	Current support from Councillors remains stable.
Current customer base	Council continues to use RIC for professional services

Assumptions		
Quantitative - measured		
Measure	Current rate	Accepted rate
Inflation	1.5%	2.0% - 3.0%
Rate of return - professional services	15%	10% - 20%
Brokerage fees	2.5% purchase price plus costs	2.5% of purchase price plus costs
Project management fees	2.5% of purchase price plus costs	2.5% of purchase price plus costs

Table 15: Key assumptions

Supporting Documents

Appendix 1 – Financial Statements

Redland Investment Corporation Group³

1. Statement of Profit or Loss and Other Comprehensive Income,
2. Statement of Financial Position, and
3. Statement of Cash flows.

Note: Financial Statement include the **proposed investment fund** which at the time of preparing this business case does not have Council approval.

³ RIC Group includes: Redland Investment Corporation Pty Ltd, RIC Toondah Pty Ltd, AVA Terraces Pty Ltd and a new subsidiary for investment fund

Budgeted Statement of Profit or Loss and Other Comprehensive Income

Budgeted Statement of Profit or Loss and Other Comprehensive Income			
		2017/18	2018/19
Revenue			
Sales revenue	1	12,400,900	8,224,000
Dividend income - investment fund	2	100,000	205,500
Gain on financial asset at fair value through profit or loss	3	37,500	77,063
Professional services	4	392,000	586,050
Rental revenue	5	265,000	318,000
Car parking fees	6	75,000	76,875
Interest income	7	18,000	36,000
Total revenue		13,288,400	9,523,488
Expenditure			
Cost of Goods Sold	8	6,253,850	6,416,851
Development costs	9	4,539,675	425,000
Employee costs	10	998,780	1,028,499
Goods and services	11	405,833	426,125
Depreciation	12	7,825	7,825
Finance costs	13	1,000	1,200
Total expenditure		12,206,963	8,305,500
Profit/(Loss) for the period		1,081,437	1,217,988
Other comprehensive income		-	-
Other comprehensive income for the period		1,081,437	1,217,988

Revenue

1. Sales revenue - revenue from development/sale of property projects.
2. Dividend income investment fund – return on high-quality growth equities (reinvested) (not approved).
3. Gain on financial assets – change in fair value of high-quality equities through profit or loss (not approved).
4. Professional service fees – project management and administration fees.
5. Rental revenue - Cleveland Plaza Bloomfield Street, Cleveland.
6. Car parking fees - 2 Colburn Avenue, Victoria Point.
7. Interest income - return on working account.

Expenditure

8. Cost of goods sold - 110-112 Queen Street, Cleveland and 9-11 Oaklands Street, Alexandra Hills.
9. Development costs - 9-11 Oaklands Street, Alexandra Hills.
10. Employee costs - RIC salary and wages plus on-costs.
11. Goods and services - Cleveland Plaza, 2 Colburn Avenue, project management, administration and concept work.
12. Depreciation expense - 2 Colburn Avenue, corporate IT and fleet.
13. Finance costs – bank charges working account.

Budgeted Statement of Financial Position

Budgeted Statement of Financial Position		2017/18	2018/19
Current assets			
Cash and cash equivalents	14	2,223,006	4,283,107
Inventory	15	5,867,762	1,978,064
Trade and other receivables	16	187,277	187,277
		8,278,045	6,448,448
Non-current assets			
Investment property	17	10,550,857	8,023,704
Financial asset at fair value through profit or loss	18	5,137,500	5,420,063
Property, plant and equipment	19	58,994	51,169
		15,747,351	13,494,936
Total assets		24,025,396	19,943,384
Current liabilities			
Trade and other payables	20	78,018	78,018
Provisions	21	89,834	89,834
Loan	22	3,500,000	-
		3,667,852	167,852
Non-current liabilities			
Provisions	21	22,330	22,330
		22,330	22,330
Total liabilities		3,690,182	190,182
Net assets		20,335,213	19,753,201
Equity			
Equity attributable to owners	23	19,712,100	19,712,100
Retained earnings	24	623,113	41,101
Total equity		20,335,213	19,753,201

Assets

- 14. Cash and cash equivalents – working account.
- 15. Inventory - land parcels held for sale in the ordinary course of business.
- 16. Trade and other receivables – expected outstanding receivables and GST at year end.
- 17. Investment property - 18-22 Wynyard Street, Cleveland Plaza Bloomfield Street and 4-10 Doig Street.
- 18. Financial assets at fair value – high-quality growth equities held in investment fund (not approved).
- 19. Property, Plant and Equipment – 2 Colburn Avenue, Victoria Pt., corporate IT and fleet.

Liabilities.

- 20. Trade and other payables – expected outstanding payables and GST at year end.
- 21. Provisions – current and non-current employee entitlements.
- 22. Loan - funding for 521 Old Cleveland Road East, Birkdale.

Equity

- 23. Equity attributable to owners – cash and non-cash contributions from Council.
- 24. Retained earnings – RIC's cumulative earnings.

Budgeted Statement of Cash Flows

Budgeted Statement of Cash Flows		2017/18	2018/19
Cash flows from operating activities			
Receipts from customers	25	13,751,640	9,204,925
Payments to suppliers and employees	26	(9,537,066)	(1,879,624)
Interest received	27	18,000	36,000
Finance costs	28	(1,000)	(1,200)
<i>Net cash provided by operating activities</i>		4,231,574	7,360,101
Cash flows from investing activities			
Payment for investment property	29	(4,492,814)	-
<i>Net cash provided by investing activities</i>		(4,492,814)	-
Cash flows from financing activities			
Funds available for distribution/reinvestment	30	(2,000,000)	(1,800,000)
Loan proceeds/(payments)	31	3,500,000	(3,500,000)
<i>Net cash used in financing activities</i>		1,500,000	(5,300,000)
Net (decrease)/increase in cash and cash equivalents held		1,238,760	2,060,101
Cash and cash equivalents at beginning of financial year		984,246	2,223,006
Cash and cash equivalents at end of financial year		2,223,006	4,283,107

Operating activities

- 25. Receipts from customers - sales revenue (property projects), professional services, rental revenue and management fees.
- 26. Payments to suppliers and employees - development costs, goods and services and RIC employee costs.
- 27. Interest received - working account.
- 28. Finance costs - bank charges and transaction fees working account.

Investment activities

- 29. Investment property - proposed acquisition of Cleveland Plaza Bloomfield Street, Cleveland

Financing activities

- 30. Funds available for distribution/reinvestment **the forecasted amount available for distribution is dependent on all projects being completed and is subject to change due to the sensitive nature of RIC's business.**
- 31. Loan proceeds/(payments) – borrowings for 521 Old Cleveland Road east, Birkdale.

Appendix 2 – Future land and asset requirements

Future land and asset that will be required for the Capalaba 'Town Centre' project.

Land and assets

The business plan proposes that the following Council assets be transferred to RIC as at 1 July 2017 for the proposed delivery of the Capalaba 'Town Centre' project.

Future land and asset requirements	Fair Value	FY
Capalaba 'Town Centre' project – Land		
27 Loraine Street, Capalaba – Lot 11 RP 101323 – 439m2	2,000	2017/18
31 Loraine Street, Capalaba - Lot 42 RP 130551 – 627m2	464,000	2017/18
30 Loraine Street, Capalaba – Lot 45 RP 130551 – 607m2	455,300	2017/18
32 Loraine Street, Capalaba – Lot 46 RP 130551 – 607m2	455,300	2017/18
14 Ricky Street, Capalaba – Lot 57 RP 130551 – 607m2	455,300	2017/18
15 Ricky Street, Capalaba – Lot 52 RP 130551 – 607m2	455,300	2017/18
16 Ricky Street, Capalaba – Lot 58 RP 130551 – 607m2	455,300	2017/18
17 Ricky Street, Capalaba – Lot 51 – RP 130551 – 607m2	455,300	2017/18
18 Ricky Street, Capalaba – Lot 59 RP 130551 – 607m2	455,300	2017/18
19 Ricky Street, Capalaba – Lot 50 RP 130551 – 721m2	540,800	2017/18
20 Ricky Street, Capalaba – Lot 60 RP 130551 – 607m2	455,300	2017/18
21 Ricky Street, Capalaba – Lot 49 RP 130551 – 893m2	535,800	2017/18
22 Ricky Street, Capalaba – Lot 61 RP 130551 – 607m2	455,300	2017/18
24 Ricky Street, Capalaba – Lot 6 RP 887593 – 667m2	500,300	2017/18
14 Noeleen Street, Capalaba - Lot 47 RP 130551 – 708m2	531,000	2017/18
16 Noeleen Street, Capalaba – Lot 48 RP 130551 – 655m2	484,700	2017/18
20 Noeleen Street, Capalaba – Lot 5 RP 887593 – 3,201m2	1,024,300	2017/18
30 Redland Bay Road, Capalaba – Lot 18 RP 178358 – 1,175m2	528,800	2017/18
32 Redland Bay Road, Capalaba – Lot 19 RP 178359 – 1,222m2	549,900	2017/18
34 Redland Bay Road, Capalaba – Lot 20 RP 178360 – 1,281m2	576,500	2017/18
36 Redland Bay Road, Capalaba – Lot 21 RP 178361 – 1,311m2	590,000	2017/18
Total	10,425,800	
Capalaba 'Town Centre' project – Property Plant and Equipment		
Capalaba central precinct	8,199,998	2017/18
Total	8,199,998	
Grand total	18,625,798	

Appendix 3 - Target land for future projects

Looking beyond the scheduled property projects for 2017/18 and 2018/19 RIC has identified a series of land parcels that will be required for future projects. Most these are owned by Council with the exclusion of one parcel in Birkdale which is owned by the Commonwealth.

Target land for future projects	Fair Value	Transfer
Land		
188-200 Redland Bay Road, Capalaba – Lot 10 RP 221597 – 2,789m ²	446,200	2017/18
11-13 Doig Street, Cleveland – Lot 11 RP 72391 – 1012m ²	728,600	2017/18
11-13 Doig Street, Cleveland – Lot 10 RP 72391 – 1012m ²	728,600	2017/18
Commonwealth Land, Birkdale*	TBD (Not included in total)	2018/19
Total	1,903,400	
Land and assets		
87-95 Redland Bay Road, Thornlands – Lot 1 RP 138557 – 5,785m ²	971,900	2017/18
87-95 Redland Bay Road, Thornlands – Community Hall Thornlands	340,301	2017/18
Total	1,312,201	

* The Commonwealth land fair value is yet to be determined.

Appendix 4 – Investment fund

NOT APPROVED

Summary

It is proposed that Redland City Council transfer \$5M surplus cash to Redland Investment Corporation as an internal loan arrangement.

The \$5M is placed in an investment fund consisting of a mix of high quality growth shares.

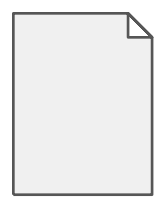
The funds are classified as 'Financial Assets at Fair Value' on the balance sheet of a new RIC subsidiary company set up to facilitate the investment fund.

The return on the shares are re-invested with the view to grow a future fund for the Redland City Group's long-term requirements.

Example:

Investment fund

Investment amount – proposed	\$5,000,000
Asset allocation - proposed	\$5,000,000 equities (100%)
Expected return on growth equities	5.50%



15.1 OFFICE OF CEO**15.1.1 REDLAND INVESTMENT CORPORATION – BUSINESS PLAN
2017-18-2018-19**

Objective Reference:	A2624172 Reports and Attachments (Archives)
Authorising Officer:	Andrew Chesterman Chief Executive Officer
Responsible Officer:	Peter Kelley Chief Executive Officer Redlands Investment Corporation
Report Author:	Grant Tanham-Kelly Chief Financial Officer Redland Investment Corporation

EXECUTIVE SUMMARY

A confidential report from the Chief Executive Officer was discussed in closed session in accordance with Section 275(1) of the *Local Government Regulation 2012*.

**OFFICER'S RECOMMENDATION/
COUNCIL RESOLUTION**

Moved by: Cr M Elliott
Seconded by: Cr M Edwards

That Council resolves to note this report and attachment.

CARRIED 7/2

Crs Williams, Gollè, Hewlett, Edwards, Elliott, Huges and Boglary voted FOR the motion.

Crs Gleeson and Bishop voted AGAINST the motion.

Cr Talty was not present when the motion was put.

Cr Mitchell was absent from the meeting.