

19 CONFIDENTIAL ITEMS

19.1 REPORT REVIEWING THE FUTURE OPERATIONS OF REDLAND INVESTMENT CORPORATION PTY LTD (RIC)

Objective Reference:**Authorising Officer:** Andrew Chesterman, Chief Executive Officer**Responsible Officer:** Andrew Chesterman, Chief Executive Officer**Report Author:** Executive Leadership Team

The Council is satisfied that, pursuant to Section 254J(3) of the *Local Government Regulation 2012*, the information to be received, discussed or considered in relation to this agenda item is:

- (g) *negotiations relating to a commercial matter involving the local government for which a public discussion would be likely to prejudice the interests of the local government.*

PURPOSE

To propose options for Council's consideration on the future operating model of Redland Investment Corporation (RIC).

BACKGROUND

On 23 October 2019 the Council resolved that the Chief Executive Officer prepare a report to Council reviewing the options for the future operations of the Redland Investment Corporation (RIC) for the consideration of a Council after the next quadrennial election in 2020 and prior to the Special Budget Meeting of 2020.

The State Government has developed a policy position paper on transparency and accountability of local government controlled entities, requiring publishing audited financial accounts of controlled entities, which is consistent with Council's established practice; and notify the State Government Minister regarding notifiable events for controlled entities, including establishment for abolishing a controlled entity. This position has been formalised in legislation.

Subsequently on 10 June 2020, Council further resolved to extend the timeline for receiving a report on the future operations of the Redland Investment Corporation until 31 December 2020 or within two (2) months of the State Government adopting changes to controlled entity provisions whichever comes first.

In November 2014 Council established the RIC.

RIC's constitution was adopted by Council on 28 November 2014 and was subsequently amended by Council General Meeting on 23 January 2019.

Clause 4.1 of the RIC constitution states that the object of RIC *"is to conduct a beneficial enterprise by carrying out activities, limited to:*

- a. *To buy, sell, develop, manage, lease, license and contract in relation to Council land;*
- b. *To manage Council land so as to:*
 - i. *Minimise Council's operational cost*

- ii. *Obtain the highest and best use of Council land through obtaining development and environmental permits, business licenses, contracting and leasing arrangements;*
- c. *To increase Council revenue sources through development, sale or management of land;*
- d. *To undertake such projects in relation to land, including Council land.”*

Since its inception, RIC has created three permanent subsidiaries of its own (Cleveland Plaza Pty Ltd., Redland Developments Pty Ltd. and RIC Toondah Pty Ltd). Plus additional subsidiaries for particular developments.

It is now six (6) years on from RIC's establishment and with a new term of Council and a new Corporate Plan being developed, it is timely to undertake a review of its operations and alignment to Council's future objectives.

In that time, whilst there is no direct forecasted dividend return from RIC to meet, in part, the original anticipated objective of increasing Council revenue sources, other intrinsic benefits, such as advancing the Priority Development Areas (PDA) of Toondah Harbour and Weinam Creek, have been achieved. Council has also had an opportunity to refine and resource its own property related objectives and we should consider RIC's future strategic intent in this light.

Best practise principles of corporate governance for council controlled entities include that the controlled entity's objectives should be clear and the use of a corporate structure independent of Council should be both appropriate and necessary.

In 2020, Council established and resourced an internal strategic property function to undertake the management of Council's property portfolio.

The majority of the property related transactions allocated to RIC, through sales and developments, have now been concluded and master planning activities at Toondah Harbour and Weinam Creek have been or successfully completed, or have an established Project Governance Framework through Council's Portfolio Management Office.

Additionally, there have been significant changes in the Local Government environment over the past six (6) years and Council should ensure its structures and practices remain current and contemporary.

Review of RIC's structure

1. On 28 November 2014, the Council tabled a report to consider options available in structuring RIC. The report is publicly available at:
https://www.redland.qld.gov.au/meetings/meeting/67/2014_council_meeting_minutes_and_agendas
2. The report recommended that Council set up a separate legal entity (company) for land transactions for the following reasons:
 - a) It will enable Council to separate itself from the risks associated with this type of investment, for example:
 - i. Legal risk
 - ii. Financial risk
 - iii. Project risk
 - iv. Reputation risk
 - b) It will also allow for efficient decision making akin to a commercial company.

- c) It will have access to a wider capital and skill base.
 - d) It will provide clean transparency by separation.
 - e) As a corporation the ownership of the entity can be transferred easily.
3. On 23 January 2019, Council undertook a governance review of RIC and resolved to make changes to the RIC constitution and service agreement, consistent with current governance practices.
 4. In June 2019, the Queensland Treasury Corporation published a confidential report titled 'Assessment of Redland Investment Corporation Pty Ltd Corporate Governance'. The report concluded that 'the governance and reporting arrangements between RIC and Council provide a high degree of transparency and consultation regarding key decisions and activities.'

ISSUES

Council needs to consider if the circumstances leading to the establishment of RIC, the current Local Government landscape, an assessment of RIC's performance and future direction of the city are best serviced by the options to be considered for the future of RIC.

COVID-19 has had a global impact on health and the economy as well as business and government operations. COVID-19 has shown the need for Government to be agile to manage business continuity, respond to changing consumer behaviours and address economic recovery. Council needs to consider how to meet these new challenges to support and grow the local economy.

Council has undertaken a number of initiatives including the current development of a new Corporate Plan which will set the direction of Council for the next five years. Council is also concurrently reviewing the Economic Development Advisory Board's membership, functionality and Terms of Reference, which could also be considered alongside the review of RIC.

The Redlands Coast Chamber of Commerce has also publicly released a report, 'Championing the Redlands Coast Phase 3', advocating for a coordinated and strategic approach to investment attraction, a uniform and universal economic development brand, and a dedicated and resourced agency to proactively position the Redlands Coast as the destination of choice.

STRATEGIC IMPLICATIONS

Legislative Requirements

In making the resolution, Council is acting in accordance with the *Local Government Act 2009* (Qld) and *Local Government Regulation 2012* (Qld).

Risk Management

Council needs to consider if the legal, financial, project and reputational risks were successfully mitigated through RIC managing projects on its behalf.

Additionally, Council is required to consolidate the RIC financials every year to comply with the Australian Accounting Standards. Consolidation of annual financial statements is an additional:

- Statutory reporting function that doesn't exist for entities without subsidiaries; and
- Is a technically complex activity performed as part of the end of year accounts finalisation process.

Council acknowledges the role that RIC provides in various strategic projects currently underway across the Redlands Coast and do not foresee any impact to these during any review process.

Financial

The financial data for this report is considered 'commercial in confidence' and therefore confidential – refer confidential Attachment 1.

Option one can be completed within existing budget.

People

Any changes to RIC would need to consider impacts on RIC employees.

Environmental

The resolution has no environmental implications.

Social

The resolution has no social implications.

Human Rights

There are no human rights issues associated with this report.

Alignment with Council's Policy and Plans

The recommendation is in accordance with previous resolutions by Council.

CONSULTATION

Consulted	Consultation Date	Comments/Actions
Executive Leadership Team	Ongoing	
Redland Investment Corporation	Ongoing	

OPTIONS

Option One

That Council resolves to request the Chief Executive Officer to:

1. Review the objectives of Redland Investment Corporation and develop options for an operating model that supports Council's future economic development and place-making projects.
2. Undertake a review of Council's Economic Development Advisory Board, in conjunction with this review.
3. Prepare a report for Council by 30 June 2021 that positions Redland Investment Corporation or an alternative structure to drive the Redlands Coast economic recovery and more generally its longer term economic development.
4. Note this report will be published with the meeting minutes, subject to maintaining Attachment 1, Redland Investment Corporation Commercial Summary, as confidential and commercial in confidence.

Option Two

That Council resolves to continue with RIC in its current form as an external entity (beneficial enterprise).

OFFICER'S RECOMMENDATION

That Council resolves to request the Chief Executive Officer to:

1. Review the objectives of Redland Investment Corporation and develop options for an operating model that supports Council's future economic development and place-making projects.
2. Undertake a review of Council's Economic Development Advisory Board in conjunction with this review.
3. Prepare a report for Council by 30 June 2021 that positions Redland Investment Corporation or an alternative structure to drive the Redlands Coast economic recovery and more generally its longer term economic development.
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