

19.1 REDLAND INVESTMENT CORPORATION BUSINESS PLAN AND BUDGET 2019-20 TO 2020-21

Objective Reference:

Authorising Officer: John Oberhardt, General Manager Organisational Services

Responsible Officer: John Oberhardt, General Manager Organisational Services

Report Author: John Oberhardt, General Manager Organisational Services

Attachments: 1. RIC Business Plan and Budget 2019-20 to 2020-21

The Council is satisfied that, pursuant to Section 275(1) of the *Local Government Regulation 2012*, the information to be received, discussed or considered in relation to this agenda item is:

- (h) *other business for which a public discussion would be likely to prejudice the interests of the local government or someone else, or enable a person to gain a financial advantage.*

PURPOSE

The purpose of this report is to present Redland Investment Corporation's (RIC's) Business Plan and Budget 2019-20 to 2020-21 to Redland City Council (Council) for information and noting, as required under the Service Agreement between RIC and Council.

This document is a statement of RIC's business goals and initiatives for the 2019-20 to 2020-21 financial years. The plan outlines the strategy, program and budget for the company's projects.

BACKGROUND

On 26 November 2014, Council resolved to incorporate RIC. RIC was incorporated on 2 December 2014. Under the *Auditor General Act 2009 (Qld)*, RIC is classified as a public sector entity.

Council is the sole shareholder of RIC.

RIC's objectives include gaining best value from surplus Council land and spurring investment to benefit the Redlands community. While RIC works commercially as a company, any developments it facilitates are intended to take into account the broader community's needs, including social and environmental impacts.

ISSUES

There are no issues associated with this report.

STRATEGIC IMPLICATIONS

Legislative Requirements

There are no legislative requirements associated with this report.

Risk Management

There is no risk management associated with this report.

Financial

There are no financial implications associated with this report.

People

There are no staffing impacts associated with this report.

Environmental

There are no environmental impacts associated with this report.

Social

There are no social implications associated with this report.

Alignment with Council's Policy and Plans

The recommendation is in accordance with previous resolutions by Council. The project and resolution aligns with Council's Corporate Plan 2018-2023:

"Supportive and vibrant economy – Council receives a return on the community's investment in land to enhance economic and community outcomes."

CONSULTATION

Consulted	Consultation Date	Comments/Actions
Board of Redland Investment Corporation	27 May 2019	RIC Board endorsed the Business Plan and Budget at the Board meeting held on 27/05/2019.

OPTIONS**Option One**

That Council resolves as follows:

1. To note the Business Plan and Budget 2019-20 to 2020-21.
2. To maintain this report and attachment as confidential subject to maintaining the confidentiality of legally privileged, private and commercial in confidence information.

Option Two

That Council resolves to not note the Business Plan and Budget 2019-20 to 2020-21.

OFFICER'S RECOMMENDATION

That Council resolves as follows:

1. To note the Business Plan and Budget 2019-20 to 2020-21.
2. To maintain this report and attachment as confidential subject to maintaining the confidentiality of legally privileged, private and commercial in confidence information.

REDLAND



INVESTMENT
CORPORATION

Redland Investment Corporation

Business Plan and Budget

2019/20 – 2020/21 financial years



Document – Version Control			
Version No.	Date	Changed by	Nature of amendment
1.0	28/03/2019	Peter Kelley	Initial document
1.1	09/04/2019	Amy Hood	Proof and edit

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, Redland Developments Pty Ltd and Cleveland Plaza Pty Ltd
Business location	Unit 17, 48 Bloomfield Street Cleveland, Q 4163
Date established	2 December 2014
Business owner	Redland City Council

Note: this document contains confidential material relating to 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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1.0 Introduction

This business plan and budget is a statement of Redland Investment Corporation's (RIC) business goals and initiatives for the 2019/20 and 2020/21 financial years. The business plan outlines the strategy, program and budget for the company's projects.

It is important to note that the expected results in the business plan are dependent on a variety of assumptions outlined in the plan. This business plan is a dynamic document, subject to change with market conditions and should be referred to as a guide only.

RIC's objectives, as stated in its recently amended constitution include gaining best value from surplus Redland City Council (Council) land and spurring investment to benefit the Redlands Coast community. While business and/or developments have been on Council's surplus land to date, it is recognised that this land is finite and opportunities on privately owned land, in and outside the Redland city, must be sort to sustain future growth and profits. RIC works commercially and provides the vehicle for Council to undergo complex city building and place making projects, and is self-funded by opportunistically developing land to create alternative revenue streams for Council.

In the previous years, RIC has been limited in the ability to seek projects outside of what Council has provided due to the asset base being predominately land and property; not cash. Out of the \$14.7 million in equity provided, only \$340,000 of it has been cash. As such, historically RIC has had to trade through property to liquidate to cover operational expenses and realise fair value uplift for profits. Fair value uplifts are not cash based profits and to date the properties have been larger values, with extended settlement timeframes and conditions, resulting in delayed cash tractions after the profit is reported. With two large transactions settling in the 2019/20 year, RIC will be in a positive position to commence active investment.

With the support of Council, a key focus of this Business Plan is to source additional project opportunities within other South East Queensland Local Government Areas (LGAs). By increasing the scope of where our revenue is sourced and looking at how RIC will operate moving forward, it has allowed opportunity to continue to pay dividends in modest amounts, whilst maintaining sustainable growth in cash and equity.

The 3 main project types/revenue streams RIC will be targeting are:

1. City Building and Place Making Projects
 - a. Consultancy or Professional Management services
2. Smaller scale land development
 - a. Land subdivisions up to 50 lots
 - b. Townhouse developments up to 20 dwellings – the “missing middle”
3. Investment Properties

Land Sales/Brokerage income from Council surplus land or new acquisitions has started to become an as needed basis and therefore hard to forecast and plan for. As such, any income from these activities will be a bonus to the core business moving forward. RIC will ensure we remain the leading party to undertake this work for Council.

1.1 Vision, Objectives and Mission

RIC will work commercially, primarily as a property development company, to achieve its vision and mission.

Vision:

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

Objectives:

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

Mission:

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

Lead the Redlands Coast development industry by delivering high quality, exemplary projects that consider 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 Coast community.

Focus on delivering place making and city building projects providing economic growth and community benefit for the Redlands Coast.

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

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1.2 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 Redlands Coast community's needs.

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

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1.3 Council Election Year

RIC requires long-term certainty from Council to be a successful business. A communication strategy is currently being drafted to enhance the RIC brand position. The key objective is to continue improving the current perception of the organisation within the current council and strengthen our reputation within the wider the Redlands Coast community. The strategy will focus on our two primary target audience segments:

- Current Redland City Council
- Redlands Coast community

And also our secondary target:

- External stakeholders

Once complete, the strategy will be implemented by the new financial year, with the objective of measurable improvement by April 2020 in preparation for the change of council.

The strategic approach will consist of improved communication channels with council, including increased communication frequency, keeping council informed of RIC projects and the direct benefits of each of those projects to the community and Council. The communication strategy will include clear key messaging to align the RIC brand as an asset to Council and the Redlands Coast community. RIC will also launch a new website. This will assist in the transparency to the community of RIC projects and our current governance processes.

The strategy will also include opportunities to engage with the new council once elected, with key messaging focused on ensuring the new council's understanding of RIC's current business objectives and benefits to the community, as well as the opportunity to revisit RIC's strategic intent. This phase of the strategy will apply immediately post-election, working closely with the new council to align, and agree on an agenda for the next four years.

The strategy is currently being drafted.

2.0 Our Business

2.1 City Building and Place Making Projects

To support key outcomes within the Council's Corporate Plan 2018-2023, RIC will continue to drive economic and infrastructure development in the city through the delivery of 3 major city building and place making projects. These projects which are at different stages will form the core consultancy services provided to the Council by RIC.

They are:

1. Capalaba Town Centre Revitalisation Project

By the end of the 2018/19 Financial Year, a preferred developer will be close to being selected following the Expression of Interest and Request for Proposal stages. It is unknown the full involvement that RIC will have beyond the 2019/20 year as it is heavily dependent on the selected proposal. For this reason, a conservative view has been taken and only assumed that RIC will receive overhead recovery and margin for 1 more year. As this project will be 4-5 years, there is the possibility for increased revenue in future years if RIC continues to be involved.

2. Toondah Harbour PDA

RIC's role to manage the Joint Venture agreement between Council, Queensland State Government and Walker Corporation has remained unchanged. As the project is going through its Environmental Impact Statement (EIS) phase, the income for the project will be derived directly from legal and administration work. In essence, overhead recovery but with an increase in workload from 2019/20 to 2020/21. As

discussed further in this document, a new staff member may be required pending Walker's progression through the EIS and general Development Approvals.

Toondah Harbour will be a steady income stream for its 20+ year project life.

3. Weinam Creek PDA

Weinam Creek is, and will continue to be, a multi-income stream for RIC. This project involves consultancy and construction management directly for Council, RIC funded land developments and the brokerage of land on Council's behalf. RIC will use its skill base to provide Council value for money through efficient use of Operational and Capital funds, obtaining competitive construction prices and endeavour to minimise Councils overall spend through commercial transactions. On consolidation, the Council/RIC Group will see an opportunity to offset significant infrastructure spend.

Pending funding sources from Council, the Weinam Creek project has a 5 – 10 year life plus any opportunistic developments RIC may undertake over that period.

2.2 Development and Land Projects

RIC strives to be self-funded through its various services which include:

- Property development
- Land sales
- Investments

More specifically in the short term these include:

- 521 Old Cleveland Road East, Birkdale (townhouse development)
- 4 – 10 Doig Street, Cleveland (land sale)
- 122 – 126 Middle Street, Cleveland (land sale)
- Cleveland Plaza (retail / office investment)
- 2 Colburn Ave, Victoria Point (commercial car park – managed on behalf of Council)
- Moores Road, Redland Bay (residential subdivision)
- Meissner Street, Redland Bay (residential subdivision / super lot sale)

2.3 Medium – Long Term

All three City Building and Place Making projects will be short and medium term with Toondah Harbour extending to the long term.

Apart from the existing investment of Cleveland Plaza, management of 2 Colburn Ave, Victoria Point and further development opportunities in Weinam Creek, RIC will seek out new projects to form a pipeline of property development/investments for medium to long term revenue. Some new projects may be outside Redland City in Southeast Queensland.

3.0 Market Overview

3.1 Global / National / Local Economic

Global markets have been dominated by a period of instability:

- Slower growth in China

- China – US trade uncertainty
- Potential adverse risks of Brexit
- Geopolitical uncertainty
- Strong internal US growth but uncertainty over foreign policy

The Australian economy remains buoyant despite slowing global growth, benefiting from the improving mining sector and non-mining business investments, strong infrastructure spending and an improvement in public sector finances.

Employment growth and low unemployment, coupled with low interest rates means strong debt servicing capability. This however, should be tempered by high household debt and high underemployment (people working but looking for more work).

Competitive AUD support exports and manufacturing, and a gradual increase in wage growth are also positive.

QLD State Government investment in NSI transition and a potential 'City Deal' for Southeast Queensland from the Federal Government may also stimulate the local economy.

3.2 Property Outlook

3.2.1 National

With a dramatic increase in online retailing, the distribution/warehouse sector of the industrial market should see a significant increase in activity. This will have a flow on effect through all industrial sectors due to supply, demand and new construction.

The combined Australian residential property sector has been and still is in decline. The Sydney and Melbourne markets are the major issue with the balance of the national residential markets remaining flat.

Over the next 10 years, the Bureau of Statistics is estimating the Australia's population will grow by approximately 400,000 people per annum. Trends are showing that Sydney, Melbourne and Southeast Queensland will share 75% of that increase at around 25% each. Therefore, assuming a 2.8 person household, Southeast Queensland should require an additional 35,700 new dwellings each year; ignoring any interstate migration.

3.2.2 Southeast Queensland

There are a number of challenges facing the residential property market over this time period. This includes high household debt, minimal real wage growth, underemployment, increasing geopolitical tensions and workplace disruptions. Housing affordability has changed dramatically in the statistical period from 1994 to 2018 with the ratio house price to household income increasing from 1.9 times to 5.1 times. Brisbane however, is one of the most affordable areas in the country. The local Southeast Queensland residential market in the next decade will be dominated by downsizers, retiree and first home buyers. Our current target products of townhouses and 'smaller lot' land sales fits this target market; referred to as the "missing middle".

While property prices in Brisbane have remained flat over the 2018 calendar year, sales rates have still remained relatively strong. This indicates there is still an underlying demand, and also supported by the above predictions of population and dwellings growth. As per section 5.2 Developments, RIC is aiming to settle two developments per year in the next 2 – 3 years. This will equate to around 50 – 70 townhouses/units/lots which means capturing only 0.17% of total projected market demand.

4.0 City Building and Place Making Projects

Below are the cost recovery and project management fees for Capalaba, Toondah and Weinam Creek projects. The recovery of consultant fees include a margin on costs incurred.

4.1 Capalaba Town Centre Revitalisation Project

	Consultant Costs	Recovery of consultant fees	Consultant fee revenue (Project Mgmt.)	Total Revenue
2019/20	(\$200,000) ^a	\$169,000 ^a	\$100,000	\$269,000
2020/21	Nil	Nil	Nil	Nil

4.2 Toondah Harbour PDA

	Consultant Costs	Recovery of consultant fees	Consultant fee revenue (Project Mgmt.)	Total Revenue
2019/20	(\$20,000)	\$20,000	\$80,000	\$100,000
2020/21	(\$60,000)	\$60,000	\$100,000	\$160,000

4.3 Weinam Creek PDA

	Consultant Costs	Recovery of consultant fees	Consultant fee Revenue (Project Mgmt.)	Construction Mgmt Revenue	Total Revenue
2019/20	(\$320,000) ^{a&b}	\$299,000 ^a	\$30,000	\$115,000 ^c	\$444,000
2020/21	(\$160,000) ^b	\$160,000	\$40,000	\$150,000 ^c	\$350,000

- Consultant fee recovery lower due to budget approval. Different captured in proposed dividend.
- These costs do not include the construction costs funded through Council's capital budget as RIC will not carry these costs
- These fees include the 5% management fee of the construction works

5.0 Development and Land Projects

5.1 Land Sales

RIC have unconditional contracts for two major property sales due for settlement in the 2019/20 financial year. Table 4 details the high-level financials and timeframes for the two land transactions. Due to fair value adjustments in previous periods, there is minimal profit forecasted. However, \$7 million in cash will be received; less applicable commission. This cash will be utilised to fund the new developments discussed below under section 5.2.

Project	Estimated revenue	Estimated costs	Estimated profit	Start date – end date	Project status
122-126 Middle Street, Cleveland	\$2.5M	(\$2.5M) (non-cash)	\$47k	1 July 2018 to Jan 2020	Project has board approval (<i>Balance of \$1.5m is payable January 2020</i>)
4-10 Doig Street, Cleveland	\$5.5M	(\$5.5M) (non-cash)	-	1 July 2018 to Jan 2020	Project has board approval (<i>\$100k non-refundable deposit paid in 2018/19 FY. Balance of \$5.4m payable 2019/20 FY</i>)

Table 4: Land sales 2019/20 and 2020/21 financial years

With the exception of the acquisition of the land (on behalf of RCC) for the Weinam Creek boat ramp, no further land acquisitions are forecast within the next two years. However, RIC is in constant discussions with Council over possible sales and/or acquisitions. RIC will only make approximately \$5,000 from the boat ramp acquisition, which is considered an 'add on' to the other Weinam Creek works.

5.2 Development

Due to the type of business RIC is and the overheads that are required, around \$21m in revenue maintains the current overhead at 8%. Developments are the primary project type that will allow RIC to achieve this revenue amount.

RIC will target the delivery of four property development projects over the next two financial years, including constructing and selling townhouses and the preparation and sale of residential blocks. There are no secured or known projects settling in the 2020/21 year. Therefore RIC is currently in an acquisition phase, as the type of developments we intend to target take between 18 – 24 months to settlement/completion.

The target product and developments that best suit our cash position are townhouse developments, up to 20 dwellings and 30-50 lot subdivisions. As such, this points to the infill style development or "missing middle" and lot reconfigurations in outer Brisbane suburbs or inner suburbs in the surrounding LGAs. RIC will not ignore opportunities outside the scope of above criteria, however it is a target being set.

This size of developments also meets our cash constraints as they will fit within a \$2.5 - \$4 million purchase price. Once we have a secure pipeline of developments we can then undertake projects with longer timeframes giving us more ground to negotiate and hold out for the 'right' deal. Due to this we have altered our short term target returns to have a profit on cost of $\geq 13\%$ for townhouses and $\geq 15\%$ for subdivisions with the aim to increase to $\geq 15\%$ and $\geq 20\%$ respectively. The Internal Rate of Return must be 20% regardless of the scenario.

Up to 20 townhouses have also been chosen to keep peak debt exposure to acceptable levels. When reviewing feasibilities on the variety of potential projects, the peak debt is between \$6.5 - \$7 million. A 50 lot subdivision peak debt could also be managed through substages if required. With increased development activity comes the need to secure more debt. This raises the question can Council continue to loan RIC the required funds or is a hybrid of loans between Council and other financial institutions required. RIC will investigate alternate funding solutions.

Table 5 details the high-level financials and timeframes for the four development projects over 2019/20 and 2020/21 financial years.

Project	Estimated revenue	Estimated costs	Estimated profit	Start date – end date	Project status
Townhouses 521 Old Cleveland Road East, Birkdale	\$5.71m	\$4.94m	\$770K	July 2018 – June 2020	Project is in Delivery phase
Land subdivision Meissner St, Weinam Creek	\$6.03m	\$4.97m	\$1.06m	April 2019 – June 2020	Project requires board approval to Delivery phase
20 townhouses site	\$10.70m*	\$9.56m*	\$1.14m*	July 2019 – Mar 2021	Board and Council approval required
30 lot subdivision	\$8.93m*	\$7.56m*	\$1.37m*	Oct 2019 – May 2021	Board and Council approval required

Table 5: Development projects 2019/20 and 2020/21 financial years

* Numbers are aspirational only and subject to land acquisition and Board approval.

Further to the above four developments, the attached financial statements show an inventory balance of \$6.6m at June 30 2021. This value is land and works undertaken on acquisitions completed mid-late 2020.

6.0 Consulting Services

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

RIC will continue to manage the Toondah Harbour *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 Toondah Harbour 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.

It is expected that administration fees will slowly increase over the 2019/20 and 2020/21 financial years.

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:

- percentage of project cost
- percentage of sale price
- a flat rate
- an hourly rate.

With all services, the full-cost recovery principle is applied.

7.0 Investments

During the 2019/20 and 2020/21 financial years, RIC will initially look to acquire further residential development projects. However, should the opportunity arise to purchase strategic investments, RIC will consider with the appropriate Board and Council approvals/consultation.

Project	Estimated gross income	Estimated costs	Estimated net income	Start date – End date	Project status
2019/20					
Retail / Office Cleveland Plaza	\$324K	\$204K	\$120K	On-going	Board approval in place
Colburn Avenue	\$63K	\$12k	\$51k	On-going	Board approval in place
2020/21					
Retail / Office Cleveland Plaza	\$354K	\$216K	\$138K	On-going	Board approval in place
Colburn Avenue	\$65K	\$13k	\$53k	On-going	Board approval in place

Table 6: Investments 2019/20 and 2020/21 financial years

8.0 Staff

RIC has experienced significant staff movement in the 2018/19 financial year with the CFO and Communications adviser resigning. Our new Communications Adviser has strong marketing experience, which we believe will suit our business moving forward. We are trialling an outsourced Chief Financial Officer (CFO) position, which should provide more consistency and coverage. We have also hired a part-time Administration Assistant to assist in all areas.

The 2019/20 financial year should see less movement of staff. Our next major appointment should be a Project Director for Toondah Harbour, though it is unlikely to be required this year, or a new Financial Officer should the outsourcing model be discontinued.

9.0 Financial Summary

Our corporate costs and salaries (overheads) are summarised below. These costs will remain consistent through the year. It should be noted that due to the type of business we are, our staff costs and overheads are generally high. This is due to the high level of governance that surrounds RIC in comparison to companies of similar size in the private sector.

Despite the additional resources RIC require, we want to set a target of maintaining the overhead to 8% of revenue. To achieve this the RIC team has to be multi-disciplinary and adaptable.

As referenced in section 7.0, we have outsourced the CFO position however, have left an allowance in the salaries for a senior accountant within the 2020/21 year. If and when an accountant is employed our external financial support will reduce significantly. It is noted that the total overhead increase across years is only budgeted at 2.4%.

Overheads Items	Description
Employee & Director Costs	Salaries, Wages, Superannuation, Payroll Tax, Director Costs
Corporate Costs	Corporate SLA, CEO Expenses, Software/IT costs, Miscellaneous Sundries
Consultant Costs	External financial support and QAO audit's
Depreciation	Depreciation of Property, Plant & Equipment

RIC's total overhead for 2019/20 is \$1.69m and increases by 2.6% the following year. In the short term RIC's target is an overhead of 8% and a net margin of 5%. As such, the target gross to be achieved is $\geq 13\%$. It is noted that 2019/20 does not meet this target, which is due to the previously reported fair value adjustment. However the target is met in the 2020/21 year.

As mentioned above in section 7.0, with the exception to a Project Director for Toondah Harbour which would have full cost recovery through the JV agreement, it is not anticipated that any additional staff engagements will be needed. With the current staffing levels and general overhead, RIC could comfortably turn over approximately \$25 million, or three instead of two developments, dropping the overhead to 7%. However, the focus will be maintaining 8% overhead but working to increase the gross margin, instead of increasing revenue. This means acquiring projects at the previously mentioned 15 and 20% target (profit on cost).

Due to the 'lumpy' revenue characteristics of a property development company, monitoring cash flows is of the utmost importance (this is magnified by the above corporate costs). RIC has requested a \$300,000 overdraft facility to provide a level of comfort moving forward, however RIC is also going to implement a revised 'cash capacity' limit to 5 months of operations starting July 1 2019. While the overdraft facility should

not be required moving forward, it should be in place by July 1 2019 which will allow the business to have more flexibility in deciding to progress projects faster or not let opportunities pass.

A summary of 2019/20 and 2020/21 forecasts are outlined in the table below:

Financial	2019/20	2020/21
	Budget	Budget
Revenue	21,195,370	20,665,036
Expenditure	20,409,328	19,355,850
Result – Profit/(Loss)	786,042	1,309,186
Cash at bank	5,130,066	5,678,909
Total assets	17,932,148	16,968,422
Total liabilities	4,748,575	2,475,662
Total Equity	13,183,573	14,492,759

Table 7: Financial summary 2019/20 and 2020/21 financial years

Complete forecast financial statements are provided in the annexures.

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10.0 Annexures

Forecast Financial Statements
Key Performance Indicators

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10.1 Forecast Financial Statements

Forecast Statement of Profit or Loss and Other Comprehensive Income

	Notes	2019/20	2020/21
Revenue			
Sales revenue	1	19,789,170	19,628,068
Construction management fees	2	115,000	150,000
Consultant Fees	3	698,000	360,000
Brokerage Fees	4	200,000	100,000
Rental revenue	5	324,000	354,000
Car parking fees	6	63,636	65,545
Interest income		5,564	7,423
Total revenue		21,195,370	20,665,036
Expenditure			
Cost of Goods Sold	7	9,901,220	17,113,356
Investment property costs	8	8,002,453	-
Consultant costs	3	540,000	220,000
Rental expenses	5	204,000	216,000
Land Tax		60,000	60,000
Car parking costs	6	12,000	12,600
Total direct costs		18,719,673	17,621,956
Overhead			
Employee & Director costs	9	1,291,339	1,452,061
Corporate costs	10	371,837	255,354
Depreciation		26,479	26,479
Total overhead costs		1,689,655	1,733,894
Profit/(Loss) for the period		786,042	1,309,186
Other comprehensive income		-	-
Other comprehensive income for the period		786,042	1,309,186

Notes

- Revenue from development projects and investment properties:
 - Edge 521, Meissner Street, Middle Street, Doig Street in FY 19/20
 - Proposed developments (new sites) in FY 20/21
- Construction management fees from Weinam Creek project
- Consultant revenue and expenses associated with Weinam Creek, Capalaba Town Centre & Toondah Harbour. This includes project management revenue.
- Brokerage fees from Capalaba Town Centre project
- Rental revenue and expenses associated with Cleveland Plaza
- Revenue and expenses associated with the car park at 2 Colburne Avenue, Victoria Point
- Cost of goods sold associated with all development project costs
 - Edge 521 and Meissner Street in FY 19/20
 - Proposed developments (new sites) in FY20/21
- Investment property costs associated with purchase of Doig and Middle street properties
- Expenses associated directors, employee wages and on-costs
- Operational costs including outsourced finance function costs

Forecast Statement of Financial Position

	Notes	2019/20	2020/21
Current assets			
Cash and cash equivalents		5,130,066	5,678,908
Trade and other receivables		31,833	118,658
Inventory	11	8,201,473	6,628,558
Total current assets		13,363,372	12,426,124
Non-current assets			
Investment property	12	4,223,871	4,223,871
Property, plant and equipment	13	344,904	318,426
Total non-current assets		4,568,775	4,542,297
Total assets		17,932,148	16,968,421
Current liabilities			
Trade and other payables		294,920	364,828
Borrowings	14	4,363,481	1,998,513
Total current liabilities		4,658,401	2,363,341
Non-current liabilities			
Provisions	15	90,174	112,321
Total non-current liabilities		90,174	112,321
Total Liabilities		4,748,575	2,475,662
Net Assets		13,183,573	14,492,759
Equity			
Equity attributable to owners	16	12,572,446	12,572,446
Retained earnings		611,127	1,920,313
Total equity		13,183,573	14,492,759

Notes

11. Proposed development properties FY20 & FY21 which are yet to be secured

12. Property held for investment – 48 Bloomfield Street, Cleveland

13. Property, Plant and Equipment – 2 Colburn Avenue, Portion of Cleveland Plaza occupied by RIC, Corporate IT

14. Borrowings to fund developments at Edge 521 and proposed developments

15. Long Service Leave Provisions; Annual Leave Provision included within Trade and other payables

16. Cash & Non-cash contributions from Redland City Council

Forecast Statement of Cash Flows

	Notes	2019/20	2020/21
Cash flows from operating activities			
Receipts from customers	17	13,915,885	22,823,150
Payments to suppliers and employees		(21,006,198)	(19,624,762)
Interest received		5,564	7,423
<i>Net cash provided by operating activities</i>		(7,084,749)	3,205,811
Cash flows from investing activities			
Payment for investment property	18	(102,000)	-
Proceeds from investments	19	7,440,000	-
Payments for property plant and equipment		-	-
<i>Net cash used in investing activities</i>		7,338,000	-
Cash flows from financing activities			
Dividends Paid	22	(448,000)	-
Proceeds from Borrowings	20	7,863,481	9,880,009
Repayment of Borrowings	21	(3,500,000)	(12,244,976)
Interest paid on borrowings	23	(62,605)	(292,002)
<i>Net cash used in financing activities</i>		3,852,876	(2,656,969)
Net (decrease)/increase in cash and cash equivalents held		4,106,127	548,842
Cash and cash equivalents at beginning of financial year		1,023,939	5,130,066
Cash and cash equivalents at end of financial year		5,130,066	5,678,908

Notes

17. All cash inflows from operating activities including development projects, rent, professional fees & brokerage
18. Payment on settlement for Doig Street property
19. Settlement of Doig Street and Middle Street properties
20. Loans for Edge 521 and proposed developments (new sites)
21. Repayment of borrowings for Edge 521 in FY 19/20 and proposed developments in FY 20/21
22. Proposed dividend to Redland City Council; resolution to pay dividend yet to occur
23. Interest paid on borrowings disclosed within Cost of Goods Sold in Statement of Profit or Loss

10.2 Key Performance Indicators

Financial

RIC Board of Directors has a set of key performance indicators in its internal *Statement of Corporate Intent*. These indicators include measures covering liquidity, profitability and solvency which RIC apply in their operations and strategic planning.

Key Performance Indicator	Description	Target	2019/20	2020/21
Liquidity				
Current ratio (times)	Management of short-term liquidity	> 2.0 & < 5.0 times	2.87	5.26
Cash capacity in months	Measure ability to meet short-term working capital commitments	5 months	13.68	15.14
Profitability				
Net profit margin (%)	Measure performance	5%	4%	6%
Return on equity (%)	Measure return on Council's investments	CPI + 4%	6%	9%
Solvency				
Debt to equity (%)	Measure portion of assets financed through debt	< 15%	25%	12%
Debt servicing ratio (%)	Ability to repay debt	< 15%	21%	11%
Interest coverage	Indicates level of total revenue committed to funding interest expense	> 10	13.47	5.46
Liability to asset ratio (%)	Indicates liabilities as a percentage of assets	< 20%	26%	15%

Table 8: Key Performance Indicators

As the company grows and changes the above targets will need to be reviewed to their appropriateness. RIC is currently reviewing its Financial Management Practice Manual where these targets will be reset.

Project

Product/Services & Consulting Services	Description	Target return
Development	Construction, management and provision of a variety of development products with RIC owned land	PoC ≥13% - Townhouses PoC ≥15% - Land IRR ≥ 20%
Council long-term projects	Development management of projects	Margin > 15%
Return from investment	Diversified portfolio: - Term deposits - Commercial investment properties	CPI + .05% CPI + 4%
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	5% of project cost plus incurred costs
Joint Venture administration services	Management of the <i>Unincorporated Joint Venture</i> for the development of the Toondah Harbour PDA	Margin >15% + costs
Professional services	Provide a range of professional services, including property/facilities management	Margin > 15% plus incurred costs

Table 9: Expected fees and returns