

19.1 REDLAND INVESTMENT CORPORATION - DIVIDEND POLICY

Objective Reference:

Authorising Officer: Andrew Chesterman, Chief Executive Officer

Responsible Officer: Peter Kelley, Chief Executive Officer Redland Investment Corp.

Report Author: Grant Tanham-Kelly, Chief Financial Officer, Redland Investment Corp.

Attachments: 1. Redland Investment Corp. Dividend Policy

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 document is to review and note Redland Investment Corporation's Dividend Policy.

The Dividend Policy sets the guidelines to be followed on distributions made to Redland City Council as determined by the Redland Investment Corporation Board of Directors.

The Dividend Policy is formulated in accordance with the Constitution of Redland Investment Corporation Pty Ltd ("Constitution"), the Redland City Council Service Agreement and the *Corporations Act 2001*.

BACKGROUND

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

The company was subsequently registered as Redland Investment Corporation Pty Ltd ("RIC") under the *Corporations Act 2001* on the 2nd of December 2014 and is wholly owned by Council.

The main resources for RIC's operation are surplus land assets transferred from Council.

RIC's objective is to realise a gain from these surplus assets and where financially feasible declare a return to Council in accordance with the Dividend Policy.

The Dividend Policy provides the policy and procedures in relation to the calculation, declaration and settlement of dividends and the determination of the form and time periods within which dividends are paid.

Section 32.1 of the Constitution allows for the Board of Directors ("Board") from time to time to either determine or declare that a dividend is payable.

To date the Board has declared and paid a dividend to Council in the first half of the 2017/18 financial year and proposes to declare a second dividend in the 2017/18 financial year during the 27th June 2018 board meeting.

ISSUES

The Board must make sure that dividend payments are sufficient to fulfil Council's expectations, while making sure RIC can continue to meet its financial obligations.

The Policy addresses this issue by providing the guidelines for the Board to decide how much of its earnings it should pay to Council at a level that reflects commercial realities while promoting RIC's sustainability.

While there is an expectation that RIC makes annual dividend payment to Council, consideration by the Board is given to all the factors and constraints detailed in the Dividend Policy when recommending a dividend.

STRATEGIC IMPLICATIONS

Legislative Requirements

No legislative requirements.

Risk Management

No foreseen risk to Council.

Financial

The financial implication of a dividend being declared by the Board has a positive impact on Council's operating result in the financial year in which the dividend is declared, as it increases operational revenue.

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 Corporate Plan:

2020 Outcomes

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
- General Counsel – Redland Investment Corporation

OPTIONS**Option One**

That Council resolves to:

1. review and note this report and attachment; and
2. ensure the report and attachment remain confidential until the Council Chief Executive Officer decides that the report and attachment are made public.

Option Two

That Council resolves to request additional information.

OFFICER'S RECOMMENDATION

That Council resolves to:

1. review and note this report and attachment; and
2. ensure that the report and attachment remain confidential until the Council Chief Executive Officer decides that the report and attachment are made public.



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Dividend Policy

1. Policy Objective

The Dividend Policy sets the guidelines to be followed by the Redland Investment Corporation (“RIC”) Board of Directors (“Board”) when declaring and paying dividends to Redland City Council (“Council”).

A dividend is the amount of available funds that the company decides to pay to shareholders.

The Dividend Policy is formulated in accordance with the Constitution of RIC, the Service Agreement between RIC and Council and the *Corporations Act 2001*.

2. Policy Statement

2.1 To define the policy and procedures in relation to the calculation, declaration and settlement of dividends and the determination of the form and time periods within which dividends are paid.

2.2 To ensure that there are sufficient distributable profits and/or reserves, prior to any declaration of a dividend.

2.3 To provide a transparent dividend policy, adherence to which will be reviewed on annual basis, with any deviations clearly identified and communicated to Council.

2.3 To ensure that dividends are either paid for in cash or assets.

2.4 The Board shall consider various factors when determining dividends to Council. The factors may include:

- Liquidity - the organisations liquidity position has a direct relation with dividend policy. If a company has strong liquidity and enough cash for its working capital, *ceteris paribus* it can afford to pay a dividend.
- Profitability - along with liquidity the single biggest dividend payment factor is profitability however, a profit does not always mean cash is available to pay dividends.
- Industry - the nature of the industry to which the company operates in for example, in an industry where earnings are stable a consistent dividend policy is more common than industries where earnings are uneven.
- Age - newly formed companies are recommended to retain portions of their earnings for further growth and expansion in the early years of operation.
- Debt - debt repayments may restrict the amount of cash available for a dividend payment and/or may breach debt measures.
- Economy – awareness of the general state of the economy for example, uncertain economic, political or business conditions ahead may have an impact on the organisation’s confidence and willingness to declare a dividend.

Dividend recommendations should be on a case-by-case basis that is, determined each financial year

3. Dividend Declaration

The dividend declaration is a financial decision that refers to the proportion of RIC's earnings to be paid to Council. Dividend policies may include:

3.1 Dividend equal to annual profit: distribute 100% of the annual profit.

3.2 Dividend greater than annual profit: distribute 100% of the annual profit with the balance of the dividend being funded from retained earnings.

3.3 Dividend payout ratio: a percentage of the annual profit is distributed.

3.4 Constant dollar dividend: a pre-determined annual dollar amount is distributed.

3.5 Dividend yield rate: a distribution equal to a percentage of the company value.

3.6 Special dividend: a one-off dividend payment commonly aligned to a specific project.

3.7 No dividend payment for a definite reason for example:

- Insufficient annual profit and/or retained earnings available for distribution;
- Working capital requirements¹; or
- Reinvestment of profits back into the business for positive investment opportunities in profit-making operations for e.g. the acquisition of another business.

4. Constraints on the payment of dividends

4.1 Dividends are to come from retained earnings, i.e. the accumulated profits of the company and therefore, the dividend amount is capped by the balance of retained earnings at year-end.

4.2 Dividends should not be paid out of issued capital.

4.3 Dividend payout decisions are affected by liquidity (cash position). Profit does not always mean cash is available, therefore all liquidity measures are required to be met after a dividend is paid.

5. Declaring and paying dividends

5.1 The Board must make sure that dividend payments are sufficient to fulfil Council's expectations, while making sure all financial obligations can be met.

In accordance with Section 254T of the *Corporations Act 2001* (Cth),

(1) a company must not pay a dividend unless:

- (a) the company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend (**Balance Sheet test**); and

¹ Working capital is the difference between current assets and current liabilities

- (b) the payment of the dividend is fair and reasonable to the company's shareholders as a whole (**Fairness Test**); and
- (c) the payment of the dividend does not materially prejudice the company's ability to pay its creditors (**No prejudice Test**).

5.2 The Board shall be responsible for making resolutions on the declaration and payment of dividends.²

5.3 Towards the end of each financial year, the board will declare the dividend to be paid to Council in accordance with the Dividend Policy and after consideration has been given to the projected annual result.

5.4 Any declaration to pay a dividend must provide the amount of dividend, the period of payment and the form of payment.

6. Timings

6.1 The Dividend Policy recommends that a dividend declaration should be (but not limited to) made by the Board in the last board meeting of the financial year. This allows for Council to record the result in the current financial year.

6.2 The dividend payment date will be determined when the declaration is made, but will generally be paid in the following financial year.

6.3 The budgeted dividend to Council is determined during the annual budget process in the current financial year and approved by the Board along with the annual business plan.

As this amount is a forecast which may be subject to change and as RIC is a young company with limited accumulated profits (retained earnings), a conservative approach is recommended in the early years of operation.

7. Associated Documents

- Constitution of Redland Investment Corporation Pty Ltd.
- Service Agreement between Council and RIC.

8. Document Control

- Only the Board can approve amendments to this policy.
- Approved changes are to be communicated to Council.

Version Information

Version number	Date	Key changes	Board approval
1.0	02/05/2018	New document policy	14/05/2018

² Section 32 | Constitution of Redland Investment Corporation Pty Ltd