



Ipswich City Council – controlled entities

Independent business and accounting review – Other Matters

7 March 2018



McGrathNicol



Scope and limitations

Important note

This report has been prepared by McGrathNicol in accordance with the terms of the engagement letter dated 20 November 2017. A copy of the engagement letter is attached as Appendix 1.

This report has been prepared for Ipswich City Council. It should not be disclosed to any other party, without our consent in writing. It may not otherwise be reproduced in whole or in part or supplied to any other party, without our consent in writing.

The information contained in the report has been prepared on the basis of:

- financial statements for FY15, FY16 and FY17 for each of the controlled entities (where relevant);
- year to date (January 2018) management accounts for FY18;
- discussions with and information provided to us by Council employees; and
- discussions with Council members.

During our review of the Controlled Entities, we have identified two other controlled entities of Council's, Ipswich Arts Foundation and Ipswich Arts Foundation Trust. We are aware that Council may also have other subsidiaries that we have not been provided details of; however, our engagement only extends to the Controlled Entities as defined in this report. Accordingly, no other entities controlled by Council have been considered for the purposes of this engagement.

The Critical Matters referred to in the engagement letter are the subject of separate reports already provided to Council.

We have not carried out an audit, nor have we verified any of the information given to us. We have relied upon assurances as to the accuracy of the information provided. As the achievement of any prediction as to the results of subsequent transactions is dependent upon future events, the outcome of which cannot be assured, the actual results achieved may vary materially from the financial projections included in this report. In all circumstances, whilst we believe that the statements made by us in this report are accurate, no warranty of accuracy or reliability is given.

In accordance with our policy, we advise that neither McGrathNicol nor any member or employee or related or associated entity of the firm undertakes responsibility in any way whatsoever, including by way of any errors or omissions arising through negligence or otherwise however caused to any persons other than Council.

Factual Accuracy

This report was provided to Council for factual accuracy review.

Following the factual accuracy review, Council requested that, in addition to the scope detailed in the engagement letter, we also review Ipswich City Properties Pty Ltd and include certain other additional information in relation to the Non-continuing Group.

Rounding

Values in millions of dollars (A\$m) have been rounded to the nearest hundred thousand. Values denoted in thousands (A\$'000 or k) have been rounded to the nearest hundred.

GST

Values are GST exclusive, unless otherwise stated.

Glossary

\$	Australian dollar	DAIC	Development Agreement Ipswich Central Civic Space	ICEI	Ipswich City Enterprises Investments Pty Ltd
A	Actuals	Development Agreement / DMA	<i>Development Agreement-Council Office Building</i> between ICP and EPC dated 14 March 2017	ICP	Ipswich City Properties Pty Ltd
Administration Building	Council Administration Building to be constructed on the Land	EPC/Developer	EPC Pacific Ipswich 1 Pty Ltd	IMP	Ipswich Motorsport Park Pty Ltd
AFL	<i>Deed of Agreement for Lease</i> between Council and EPC dated 14 March 2017	Excl.	Excluding	K	Thousands
Approx.	Approximately	FF&E	Furniture, fittings and equipment	Land	Proposed Lot 2, approved as part of the reconfiguration of lot approval for land owned by ICP
ASIC	Australian Securities and Investments Commission	FBT	Fringe Benefits Tax	M	Millions
Civic Space	The development known as Ipswich Central Civic Space, proposed to be constructed on land owned by ICP	FTE	Full-time employee	McN	McGrathNicol
Council	Ipswich City Council	FY	Financial Year	MVL	Members' voluntary liquidation
Controlled Entities	ICD, ICE, ICEI, ICP, IMP	GST	Goods and Services Tax	Non-continuing Group	ICD, ICE, ICEI, IMP
Cr	Councillor	ICD	Ipswich City Developments Pty Ltd	PAYG	Pay as you go (withholding tax)
CVL	Creditors' voluntary liquidation	ICE	Ipswich City Enterprises Pty Ltd	Propel	Propel Partnership – former arrangement with Council to operate a call centre

Glossary

QA0	Queensland Audit Office
Redbank Plains-Residential	7000 Redbank Plains Road, Redbank Plains Qld 4305. A re-development project undertaken by ICD
Redbank Plains-Retail	Retail re-development project undertaken by ICD
YTD	Year to Date



Contents

Scope and limitations	4
Glossary of terms	7
Executive summary	8
1. Controlled Entities: current position	22
2. Controlled Entities: audit reports	25
3. Non-continuing Group: options available	29
4. Non-continuing Group: project plan	35
5. ICP: Civic Space	37
6. Appendices	

Executive summary

This report considers the current status of each of the Controlled Entities. In particular, the report concentrates on the entities in the Non-continuing Group and actions that can be taken in preparation for being wound-up. ICP is not being considered to be wound-up in the short-term as a result of its ongoing land-owning and development activities. We estimate it may take approximately four months to prepare for the winding up of the entities, then after the appointment of liquidators, approximately six months for the MVL process to be concluded. Council could make material savings if the winding up commences before 30 June 2018.

Summary of the Controlled Entities and key activities

ICP

- Redevelopment of land, including the Administration Building and Civic Space.

Pre-appointment actions to wind-up entity

- ICP is not being considered to be wound-up in the immediate or short-term as there are current development activities underway.

ICD

- Redeveloped and on-sold land.
- It has no further redevelopment projects underway.

Pre-appointment actions to wind-up entity

- Transfer ownership of 101 Limestone Street to Council and terminate the lease to ICE.
- Collect any remaining debtors from development projects or assign them to Council.
- Consider ICD's intention to provide a financial contribution to Council for infrastructure costs to extend Coldham Street, Ipswich.
- Cancel lease at 143 Brisbane Street, Ipswich.

ICEI

- Wholly-owned subsidiary of ICE.
- Formerly partnered with Propel to operate a call centre for the public. It has no ongoing, current activities.

Pre-appointment actions to wind-up entity

- Pay any remaining creditors and transfer cash to Council.

ICE

- Operates Fire Station 101, which provides a 'technology hub' for members of the public/start-up businesses.

Pre-appointment actions to wind-up entity

- Transfer operations of Fire Station 101 to Council, including all FF&E.
- Terminate lease of Fire Station 101 from ICD.
- Collect all remaining debtors or assign them to Council to collect.
- Novate or transfer utility accounts to Council
- Pay all outstanding creditors.

IMP

- Established for the proposed revitalisation of the Motorsports Park.
- There are no current activities.

Pre-appointment actions to wind-up entity

- Council to consider request to forgive its loan to IMP.
- Terminate service agreement with ICD for office space at 143 Brisbane Street, Ipswich.
- Transfer accounting system (QuickBooks) to Council.
- Pay all outstanding creditors.
- Council could consider de-registration of this entity as an alternative to an MVL.

Approximately 6 months

Approximately 1 week

Approximately 4 months

Pre-appointment activities Appointment of Liquidator

MVL process

Source: ASIC Company Searches dated 9 January 2018 and discussions with Council personnel



Controlled Entities: current position

Scope and limitations

Glossary of terms

Executive summary

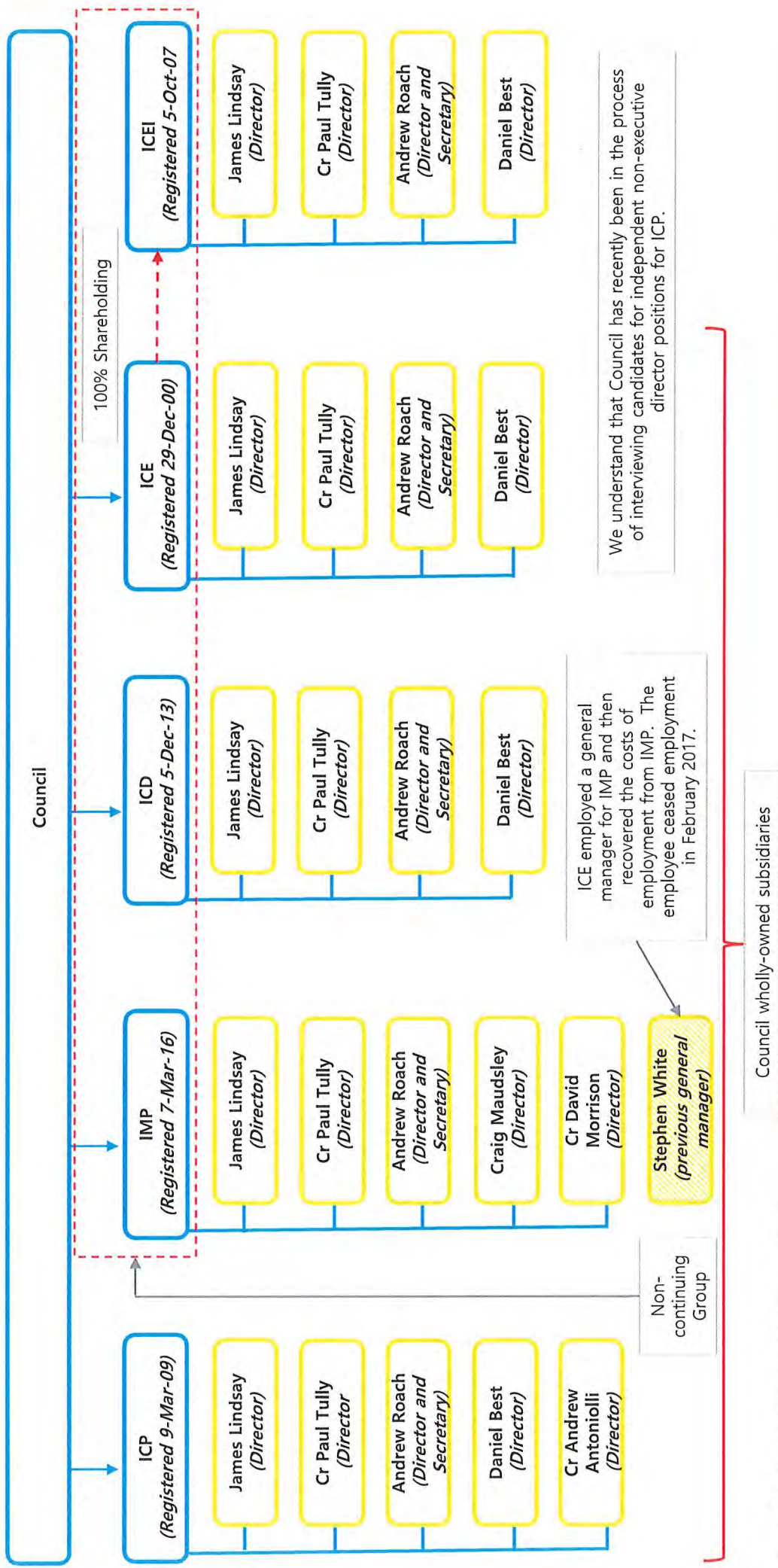
1. [Controlled Entities: current position](#)
2. Controlled Entities: audit reports
3. Non-continuing Group: options available
4. Non-continuing Group: project plan
5. ICP: Civic Space
6. Appendices



1 Controlled Entities: current position

1.1 Controlled Entities: group structure

ICP, IMP, ICD and ICE are all wholly-owned subsidiaries of Council and ICEI is a wholly-owned subsidiary of ICE. All Controlled Entities are managed by Council staff who are utilised across the Controlled Entities as necessary. IMP is the only controlled entity that formerly employed staff external to Council (a general manager for the day-to-day management of IMP). We refer to IMP, ICD, ICE and ICEI as the Non-continuing Group in this report. The majority of matters relating to ICP are the subject of separate reports by McN to Council.



1 Controlled Entities: current position

1.2 Controlled Entities: Council seconded employees

Council employees' time is invested in each of the Controlled Entities across three different cost centres, those being administrative, finance and operational. Accordingly, a percentage of the relevant Council employee's annual wage is allocated to the Controlled Entity in which they have invested their time. ICP and ICE still currently require a material investment of time as ICP is currently undertaking development projects and ICE operates Fire Station 101. The other Controlled entities have wound back/ceased operations.

Portion of Council employees' wages invested in each of the Controlled Entities				
\$'000	1 December 2016 to 30 June 2017 (7 months)		FY18 Forecast (12 months)	
	Monthly	Total (7 months)	Monthly	Total wage (12 months)
IMP	10.6	74.2	3.1	37.2
ICD	23.8	166.7	4.3	51.8
ICE	11.0	76.7	19.0	228.4
ICEI	4.7	33.2	2.0	24.4
ICP	29.9	209.0	67.8	813.7
Total	80.0	559.9	96.3	1,155.5

Comments

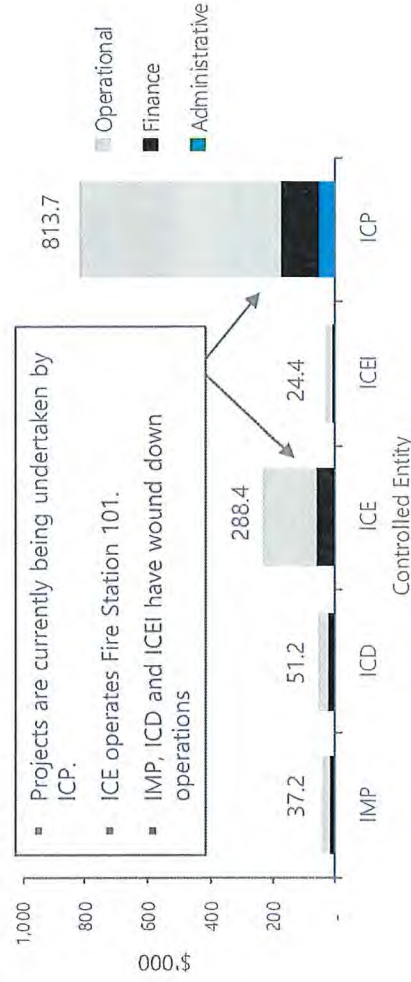
- Council employees invest time in each of the Controlled Entities as required. Council only recovers these costs from ICP and ICE.
- A FY18 forecast list of employees to be utilised in the Controlled Entities is detailed in Appendix 2, including their forecast percentage of time invested in each Controlled Entity and an allocation of their wage for the forecast time invested.
- ICP requires a higher percentage of Council employees' time due to its ongoing projects in relation to the redevelopment of the Ipswich City Centre. It is expected that time invested in ICP will increase further resulting from the termination of the DMA and AFL, and ICP taking on the development of the Administration Building.
- ICE is the only other entity that is undertaking current activity, that being the operation of Fire Station 101.
- IMP, ICD and ICEI are in the process of winding down their operations and, accordingly, require minimal time invested by Council employees. These costs are recorded but are not recovered by Council from these entities.

FY18 forecast of Council employees' wages allocated per Controlled Entity and cost centre

\$'000	Administrative	Finance	Operational	Total
IMP	11.1	9.8	16.3	37.2
ICD	9.1	14.9	27.7	51.8
ICE	5.9	57.8	164.8	228.4
ICEI	5.9	9.8	8.7	24.4
ICP	58.4	119.4	635.9	813.7
Total	90.2	211.8	853.4	1,155.5

Note: All costs include on costs
Source: Provided by Council personnel

FY18 forecast of Council employee wages allocated per Controlled Entity and cost centre



1 Controlled Entities: current position

1.3 Controlled Entities: activities undertaken

Summarised below is the purpose of each entity along with the activities undertaken by each entity to date. The table also details any remaining activities and assets of each entity. We understand that ICP is not currently in a position to be wound-up due to its ongoing development and land-owning activities that will continue beyond the short-term, including its involvement with the Administration Building and the Civic Space.

Activities undertaken by each entity and remaining activities and interest

Entity	Activities previously undertaken	Remaining activities and interests
ICD	<ul style="list-style-type: none"> ▪ Redeveloped and sold land that it obtained from Council. ▪ In FY17A, ICD had five development projects underway. Four of the five developments were subsequently sold in FY17A as a result of Council's strategy to wind-up the entity. ▪ Redbank Plains-Residential was the final redevelopment property that ICD sold. The sale of this property settled on 20 December 2017. 	<ul style="list-style-type: none"> ▪ Investment property, located at 101 Limestone Street, Ipswich. This property currently has a three year tenant which is approximately half way through its tenancy. That tenant is ICE (another Controlled Entity). ▪ Collection of monthly rent from tenant. ▪ ICD has advised that it intends to provide a financial contribution to Council for infrastructure costs to extend Coldham Street.
ICE	<ul style="list-style-type: none"> ▪ Responsible for operating Fire Station 101, which provides a 'technology hub' for members of the public. ▪ ICE collects revenue in the form of membership fees from the public/start-up businesses and fees to hire out the venue for functions, training sessions and meetings. ▪ Council staff are utilised in operating this entity. ▪ ICE contracted a general manager to work in IMP and recovered the costs from IMP. The employee's contract ended in February 2017. 	<ul style="list-style-type: none"> ▪ Operates Fire Station 101 from 101 Limestone Street, Ipswich (leased from ICD). ▪ Collection of outstanding debtors.
ICEI	<ul style="list-style-type: none"> ▪ ICEI is a wholly-owned subsidiary of ICE. ▪ Primarily set up to facilitate a Services Queensland partnership between ICE and Propel to operate a call centre for the public. Council employees were utilised in the call centre and the revenue generated was split between ICE and Propel. ▪ The Services Agreement ended in November 2017. 	<ul style="list-style-type: none"> ▪ All streams of revenue have ceased. ▪ There are no current operations in ICEI.
ICP	<ul style="list-style-type: none"> ▪ ICP is responsible for projects that include the redevelopment of the Civic Space and Council's new Administration Building. ▪ The redevelopment of the Administration Building is discussed in our other reports to Council. 	<ul style="list-style-type: none"> ▪ Council has resolved to own the Administration Building and, accordingly, has terminated the AFL and DMA. It is currently planned that Council will engage ICP as developer of the Administration Building. ▪ Progress of the Civic Space is currently on hold until a builder for the Administration Building is selected.
IMP	<ul style="list-style-type: none"> ▪ The purpose of IMP was to revitalise the Motorsport Park. However, Council leased the land (10 year lease plus 30 year option) to a tenant, which is not receptive to Council's strategy. ▪ Council has advised it discussed with the tenant the potential takeover of the lease from the tenant, however, was unable to negotiate satisfactory terms. Accordingly, all operations of IMP ceased and the employment of the general manager concluded in February 2017. 	<ul style="list-style-type: none"> ▪ IMP has sought consent from Council to consider forgiveness of the \$450k loan from Council to IMP and deregister the entity. Council is yet to respond to those requests.

Source: FY15, FY16 and FY17 Financial Statements, Management accounts and information provided by Council staff



1 Controlled Entities: current position

1.4 ICD statement of financial position

ICD was established to redevelop and sell land with five development projects undertaken during FY17A. In preparation to wind-up the entity, ICD sold its remaining projects in FY17A, with the exception of Redbank Plains-Residential, the sale of which settled on 20 December 2017. The proceeds from the sale of Redbank Plains-Residential (\$2.8 million (excl GST)) were used to settle the outstanding loan balance of approximately \$2.4 million that ICD owed to Council.

ICD - statement of financial position

A\$'000	FY15A	FY16A	FY17A	Jan18A (YTD)
Current assets				
Cash and cash equivalents	1,313	470	1,070	1,180
Trade and other receivables	754	802	16	6
Inventory-development projects	7,259	2,231	1,304	-
Land held for sale	-	350	-	-
GST receivables	-	-	-	-
Total current assets	9,326	3,853	2,390	1,186
Non-current assets				
Investment property	-	2,600	2,000	2,000
Furniture and fittings	-	-	30	26
Buildings	407	-	-	-
Freehold land	1,065	-	-	-
Total non-current assets	1,472	2,600	2,030	2,026
Total assets	10,798	6,453	4,420	3,212
Current liabilities				
Trade and other payables	(397)	(281)	(180)	(24)
Licence fee payable (IP)	(1,076)	(816)	-	-
GST payable	(66)	-	(246)	(260)
Total current liabilities	(1,539)	(1,097)	(426)	(284)
Non-current liabilities				
Borrowings	(8,939)	(4,942)	(2,334)	-
Total non-current liabilities	(8,939)	(4,942)	(2,334)	-
Total liabilities	(10,478)	(6,039)	(2,760)	(284)
Net assets/(liabilities)	320	414	1,660	2,928

- Includes capitalised costs of projects investigated but not undertaken. The balance has been reduced to zero as at Jan18A (YTD) due to the sale of Redbank-Plains residential on 20 December 2017 at \$2.8 million (excl GST) and the decision that no further projects would be undertaken. Accordingly, the remaining inventory balance has been moved to cost of goods sold in the profit and loss statement.
- A Taylor Byrne valuation of the Redbank-Plains Residential development dated 29 June 2017 indicated a value of \$2.75 million (GST exclusive). It was sold for \$2.8 million.
- Projects undertaken and investigated by ICD are detailed at section 1.6.

- ICD owns 101 Limestone Street, Ipswich, which is partially-developed and is now the only property owned by ICD.
- A Taylor Byrne valuation dated 10 October 2017 indicates a value of \$2 million (GST exclusive) for this property.
- 101 Limestone Street is currently leased by ICD to ICE (housing Fire Station 101) on a three year lease, which is due to expire on 28 February 2019. Base rent for the first lease year is \$117,000 with no fixed review dates and no fixed review percentage.

- Includes accrued project and administrative support costs (\$15,643) and unearned revenue (\$8,799).

- Licence fee paid to Council for developments.

- The proceeds received from the sale of Redbank Plains-Residential development of \$2.8 million (excl GST) were used to settle the outstanding loan balance to Council in full.

Note: Totals may vary slightly due to rounding. Source: ICD Financial Reports FY15, FY16, FY17 and FY18 YTD management accounts



1 Controlled Entities: current position

1.5 ICD statement of comprehensive income

In addition to revenue received from development projects, ICD also receives rental income from its investment property located at 101 Limestone Street, Ipswich. Apart from the ownership of 101 Limestone Street, Ipswich and the lease of 143 Brisbane Street, Ipswich, ICD has no other material contracts or arrangements that could generate additional liabilities.

ICD - income statement summary

A\$'000	FY15A	FY16A	FY17A	Jan18A (YTD)
Income from sales				
Sales revenue	1,930	6,869	3,125	2,818
Less: COGS	(1,526)	(6,948)	(1,166)	(1,384)
Net sales	404	(79)	1,959	1,434
Income from continuing operations				
Contributions	80	-	-	-
Interest	1	34	132	14
Other income	-	35	6	-
Rental income	-	41	104	60
Service revenue	-	-	137	-
Total income from continuing operations	81	110	379	74
Gain on sale of assets	-	-	201	-
Total income	485	31	2,539	1,508
Operating expenses				
Materials and services	(28)	(166)	(319)	-
Finance costs	(54)	(140)	(183)	(91)
Depreciation expense	-	-	(5)	(4)
Rental expenses	-	-	(78)	(36)
Other expenses	(79)	(42)	(106)	(111)
Total operating expenses	(161)	(348)	(691)	(242)
Loss on revaluation - investment property	-	-	(600)	-
Total comprehensive income	324	(317)	1,248	1,266

- Sales revenue received in FY17A included the sale of Redbank Plains-Retail and other developments sold.
- Sales revenue received in the period to Jan18A is for the sale of Redbank Plains-Residential, which settled on 20 December 2017 at \$2.8 million.
- Refer to section 1.6 for a summary of development projects investigated, undertaken and sold by ICD.

- Rental income received from the tenant located in 101 Limestone Street, Ipswich (ICE) (base rent of \$117,000 in the first year).
- The Net Lettable Area of the to be lease was surveyed shortly after the lease was executed and the total annual rent was adjusted to be \$103,950.

- Interest accrued on loan from Council.

- Other expenses includes rental expenses for ICD's tenancy at 143 Brisbane Street, which is owned by Council, auditor fees, registration fees, land tax, IT costs and fitout costs.

Note: Totals may vary slightly due to rounding. Source: ICD Financial Reports FY15, FY16, FY17 and FY18 YTD management accounts



1 Controlled Entities: current position

1.6 ICD Development projects

ICD undertook a number of development projects and also investigated a number of potential development opportunities during FY15A and onwards. These development projects and investigations are listed in the table below. Council has advised that the sale of the Redbank Plains-Residential property settled on 20 December 2017 and the sale proceeds received of \$2.8 million (GST exclusive) were used to settle ICP's loan balance owing to Council in full (\$2.4 million).

Projects undertaken each financial year by ICD						
Project	Status	FY15A	FY16A	FY17A	Jan18A (YTD)	Comment
Jones Road, Bellbird Park Site	●	✓	✓			Sold to Gallery Building Group
Jones Road, Commercial Site	●	✓	✓			Sold to Albalea Bellbird Park Pty Ltd
Redbank Plains-Retail	●	✓	✓	✓		Sold to UG Res 2 Pty Ltd
Redbank Plains-Residential	●	✓	✓	✓	✓	Sold to UG Res 2 Pty Ltd
Nimmo Street, Booval	●	✓	✓	✓		Sold to 25 Nimmo Street Pty Ltd
Stuart Street, Goodna	●	✓	✓	✓		Sold to Fumel Residential Pty Ltd
Winston Street, Yamanto	●	✓	✓	✓		Potential retail/medical/residential development
James Josey Avenue, Springfield Lakes	●	✓	✓	✓		Potential residential development, carpark for railway station
Aspinall Street, Leichardt	●	✓	✓	✓		Potential residential development
38-40 School Road, Redbank Plains	●	✓	✓	✓		Potential reconfiguration for road widening and sale of residual parcels
42 School Road, Redbank Plains	●	✓	✓	✓		Potential reconfiguration for road widening and sale of residual parcels
Eric Street, Goodna	●	✓	✓	✓		Potential residential development
Briggs Road, Flinders View	●	✓	✓	✓		Potential residential and commercial development
101 Limestone Street – Commercial	●	✓	✓	✓	✓	Commercial development, tenant is Fire Station 101
101 Limestone Street – Car park	●					Sold to McDonalds Australia Ltd

Comment

- Investigative works on hold are investigations that have not proceeded to a redevelopment of the property. The investigative works examine the highest and best use of the land and the feasibility of the redevelopment.
- Other than 101 Limestone Street, which is partially developed and houses Fire Station 101, there are currently no other remaining development projects being undertaken by ICD

Note: ICD Financial Reports FY15, FY16, FY17 and FY18 YTD management accounts and Council personnel



1 Controlled Entities: current position

1.7 ICE consolidated statement of financial position and income statement

ICE is responsible for operating Fire Station 101 where Council employees are utilised in the day-to-day operations. These operations could be transferred to direct Council control if ICE is to be voluntarily wound-up. Although ICE has positive net assets, ICE has experienced negative income in FY17A resulting from a) its subsidiary ICEI resolving to cease dividend payments to ICE resulting in ICE writing-off \$724k in dividends; b) material general costs; and c) employment expenses.

ICE - statement of financial position summary				
A\$'000	FY15A	FY16A	FY17A	Jan18A (YTD)
Current assets				
Cash and cash equivalents	118	15	238	127
Trade and other receivables	-	24	27	48
Dividend receivable	3,000	1,314	-	-
Prepayments	-	9	-	11
Total current assets	3,118	1,362	265	186
Non-current assets				
Property, plant & equipment	-	94	81	74
Investment in subsidiary	-	-	-	-
Total non-current assets	1	94	81	74
Total assets	3,119	1,456	346	260
Current liabilities				
Dividend payable	(3,000)	-	-	-
Trade and other payables	-	(115)	(4)	(109)
Tax payable	-	-	-	-
Unearned revenue	-	-	(3)	(6)
Accrued expenses	(5)	(5)	(14)	-
Total current liabilities	(3,005)	(120)	(21)	(115)
Total liabilities	(3,005)	(120)	(21)	(115)
Net assets/(liabilities)	114	1,336	325	145
PP&E relates to office furniture and fitout.				

ICE - income statement summary				
A\$'000	FY15A	FY16A	FY17A	Jan18A (YTD)
Income				
Interest	3	2	3	2
Other revenue	-	7	495	83
Dividend revenue	3,000	1,700	-	-
Total operating income	3,003	1,709	498	85
Operating expenses				
Bad Debt expenses	-	-	(7)	-
Professional services	(4)	(5)	(6)	(103)
Property expenses	-	-	-	(70)
Depreciation expenses	-	(3)	(13)	(7)
Employment expenses	-	-	(257)	-
General costs	(1)	(478)	(502)	(87)
Total operating expenses	(5)	(486)	(785)	(267)
Other expenses				
Dividends written off	-	-	(724)	-
Total other expenses	-	-	(724)	-
Total comprehensive income	2,998	1,223	(1,011)	(182)

Comments

- ICE operates Fire Station 101 and collects revenue (detailed at section 1.8).
- ICEI declared a \$1.7 million dividend in FY16A after which ICEI resolved to cease any further dividend payments to ICE as ICE no longer required the funding from ICEI to operate Fire Station 101. Accordingly, ICE wrote-off the remaining dividend balance of \$724k in FY17A, which impacted materially on total income.
- This write off combined with high general costs have contributed to a negative net income position in FY17A and Jan18A YTD.

Note: Totals may vary slightly due to rounding. Source: ICE Financial Reports FY15, FY16, FY17 and FY18 YTD management accounts



1 Controlled Entities: current position

1.8 ICE break down of revenue for Fire Station 101

As at Jan18 (YTD), ICE has recorded revenue of \$82,756. The majority of revenue consists of membership fees for access to use the Fire Station 101 facilities and venue hire fees are collected for hiring out rooms for functions, trainings and meetings.

ICE revenue for the period 1 July 2017 to 31 January 2018 (\$)

Revenue classification	Description	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-18	Jan-18	Total YTD
Day pass	Day passes bought by members of the public/start-up businesses to access the facilities that Fire Station 101 offers.	59	78	177	97	117	98	58	684
Memberships	Memberships bought by members of the public/start-up businesses to access the facilities that Fire Station 101 offers.	7,909	5,019	4,523	3,996	5,070	4,186	5,253	35,956
Others	\$18,000 received from the Department of Science, Information Technology and Innovation (State) in Nov-17 to host business accelerator programs. The delivery of these programs is still underway. The remainder of events are hosted by Council, some of this amount is funded by the Advancing Regional Innovation Program contract that Council has with the State.	-	-	-	-	18,000	-	12,642	30,642
Sponsorship	Sponsorships received to host events	-	907	516	-	-	-	-	1,423
Venue Hire	Venue hire is a combination of simple room hire by members of the public/businesses as well as being used for meetings and hosting events.	1,530	1,439	784	593	8,872	539	294	14,051
Total	Forecast to be offset by approx. \$7,500 in bad debts/credit notes due.	9,498	7,443	6,000	4,686	32,059	4,823	18,247	82,756

Comment

- Revenue recorded in the above table is higher than revenue recorded in the FY18A (YTD) income statement of \$81,339 (combined with cost recovery in the income statement to total \$83,175) as a result of transaction costs having been deducted from the revenue reported in the income statement.
- ICE to investigate assignment of the contract with, or repayment to, the Department of Science, Information Technology and Innovation for the grant of \$18,000 to Council, if delivery of these programs is not complete by the time Council resolves to wind-up ICE.

Note: Totals may vary slightly due to rounding. Source: Reporting provided by Council personnel.



1 Controlled Entities: current position

1.9 ICEI statement of financial position and income statement

ICEI is a wholly-owned subsidiary of ICE and was originally responsible for a Services Queensland partnership with Propel. The contracts relating to the services partnership were terminated in November 2017 and the partnership was dissolved. There are no current activities, contracts or ongoing costs that ICEI is responsible for. A dividend of \$1.7 million was declared to ICE in FY16A. However, in November 2016 the ICEI board resolved to cease dividend payments to ICE.

ICEI - statement of financial position				
A\$'000	FY15A	FY16A	FY17A	Jan18A (YTD)
Current assets				
Cash and cash equivalents	3,901	2,758	4,186	5,151
Trade and other receivables	390	-	58	-
Total current assets	4,291	2,758	4,244	5,151
Total assets	4,291	2,758	4,244	5,151
Current liabilities				
Dividend payable	(3,000)	(1,314)	-	-
Trade and other payables	(17)	(3)	(16)	(6)
Accrued expenses	(5)	(5)	(11)	-
Tax payable	-	-	-	(2)
Total current liabilities	(3,022)	(1,322)	(27)	(8)
Total liabilities	(3,022)	(1,322)	(27)	(8)
Net assets/(liabilities)	1,269	1,436	4,217	5,143

A dividend of \$1.7 million was declared in favour of ICE in FY16A. In November 2016, the ICEI board resolved to cease any further dividend payments to ICE and \$724k was written off by ICE. This write off related to dividends declared in FY17A and prior years.

Council advised that the dividend payments were funding the operations of Fire Station 101; however, a revised Fire Station 101 2016 to 2017 budget indicated that funding from ICEI was no longer required and accordingly ICEI resolved to cease further dividend payments.

ICEI's net asset position has increased each year and has also always shown a positive net income position.

Note: Totals may vary slightly due to rounding. Source: ICEI Financial Reports FY15, FY16, FY17 and FY18 YTD management accounts

ICEI - income statement summary				
A\$'000	FY15A	FY16A	FY17A	Jan18A (YTD)
Income				
Distributions	1,155	1,644	1,613	761
Interest received	89	120	69	53
Other income	299	109	388	114
Total operating income	1,543	1,873	2,070	928
Expense				
Professional services	(4)	(5)	(6)	-
General costs	(161)	(3)	(6)	(4)
Total operating expenses	(165)	(8)	(12)	(4)
Total comprehensive income	1,378	1,865	2,058	924

Comments

- ICEI was part of a Services Queensland partnership with Propel. The Partnership operated a customer call centre in which Council employees were utilised. The service agreement between ICEI and Propel was terminated in November 2017 and the partnership was dissolved. The final distributions from the partnership agreement were received in November 2017. There are no further distributions to be received.
- From December 2017 onward, ICEI will only receive interest revenue generated from cash at bank. Other revenue received up to FY17A relates to infrastructure charges and accommodation and service support received from Propel (resulting from the dissolution of the partnership). There are no further funds to be received.
- General costs in FY15A were material and were mainly attributed to a payment to Propel for ICEI's contribution to after hours call services costs.



1 Controlled Entities: current position

1.10 IMP income statement

IMP's function was to revitalise the Motorsport Park situated on a parcel of Council-owned land at Willowbank, Ipswich. The long term lease of the Motorsport Park (10 years plus a 30 year option), impacted on IMP's revitalisation strategy. Accordingly, all of IMP's activities have ceased, including the termination of its general manager in February 2017. IMP does not have any material contracts or ongoing obligations in place, other than its Services Agreement with ICD for use of office space in 143 Brisbane Street, Ipswich. On 14 November 2017, IMP's Board sought Council's consent to voluntarily deregister IMP and forgive the outstanding loan. We understand that Council has not yet provided a response.

IMP - statement of financial position	
A\$'000	FY17A Jan18A (YTD)
Current assets	
Cash and cash equivalents	39
Trade and other receivables	4
Total current assets	43
Total assets	43
Current liabilities	
Accrued charges	(6)
Tax payable	-
Other payables	-
Total current liabilities	(6)
Non-current liabilities	
Borrowings	(450)
Total non-current liabilities	(450)
Total liabilities	(456)
Net assets/(liabilities)	(413)

- IMP has prepared financial statements for FY17A onwards as it did not commence any financial transactions until after 1 July 2016.
- IMP utilised the services of a general manager whose employment was terminated in February 2017. The employee's contract was with ICD, which recovered the cost of employment from IMP.

- IMP has a loan agreement with Council, which relates to funds provided to IMP to revitalise the Motorsport Park. The loan:
 - does not have a principal repayment schedule;
 - has a facility limit of \$5 million; and
 - is provided on a zero interest basis.
- The loan operates similar to a line of credit facility and has a facility limit of \$5 million.
- A review of the IMP financial reports indicates that the loan funds were mainly spent on various professional fees. Refer to section 1.11 for a break down of the funds spent.
- IMP has sought Council's consent to forgive the outstanding loan amount owed.

Note: Totals may vary slightly due to rounding. Source: IMP Financial Reports FY17 and FY18 YTD management accounts



1 Controlled Entities: current position

1.11 IMP statement of financial position

A review of IMP's financial statements indicates that the loan received from Council in the amount of \$450,000 was mainly spent on various professional fees. In particular, a material amount of professional fees was allocated to a) consultancy fees relating to works associated with the Masterplan; and b) management services fees relating to salary and termination costs of the general manager.

IMP - income statement summary		
A\$'000	FY17A	Jan18A (YTD)
Income		
Interest received	1	1
Other income	150	11
Total income	151	12
Expense		
Professional services	(507)	-
Service charges	(28)	(13)
Other expenses	(29)	(1)
Total expenses from continuing operations	(564)	(14)
Total comprehensive income	(413)	(2)

Other income relates to:

- \$150,000 in grants revenue in FY17A from the Queensland Government. This was a contribution to the Masterplan in consideration of developing the Motorsport Park. The Masterplan is a series of maps and schematic drawings of what the future site would look like as well as preliminary cost estimates to develop the Motorsport Park; and
- \$10,894 as a one off refund of a valuation fee as the fee had been paid twice in error, by both IMP and IMP's consultant who had engaged the valuer.

- It appears the loan funds were spent mainly on professional services fees which are detailed in the table below.

Professional fees FY17A	\$'000
Consultancy fees	189
Legal and professional fees	4
Management services	257
Management Services: vehicle expenses	10
Recruitment expenses	47
Total	507

- Management services relate to the salary costs and termination payment of IMP's general manager.

- Consultancy fees are associated with works relating to the Masterplan. Consultants include Queensland Government, ICE, iEDM Integrated Event Delivery Management Pty Ltd, Gibson Architects Pty Ltd, Rider Levett Bucknall Qld Pty Ltd and BDO Corporate Finance (Qld) Ltd).

Other expenses include:

Other expenses FY17A	\$'000
Audit fees	6
Travelling expenses	11
General expenses	12
Total	29

- IMP does not have any material contracts in place other than its Service Agreement with ICD for office space in 143 Brisbane Street, Ipswich (\$1,800/month). Council has advised that the Service Agreement can be cancelled at any time.

Note: Totals may vary slightly due to rounding. Source: IMP Financial Reports FY17 and FY18 YTD management accounts



1 Controlled Entities: current position

1.12 ICP statement of financial position and income statement

ICP owns and operates Ipswich City Square shopping centre and is responsible for the redevelopment of the Civic Space and the new Council Administration Building. In FY16A, Council partially forgave a loan it had with ICP in the amount of \$34 million resulting from the impact of historical economic conditions on the pace of re-development activities on the Ipswich City Square. ICP currently has an ongoing agreement with Council for the development of the Civic Space and shortly will have an agreement in place with Council for the development of the new Administration Building.

ICP- statement of financial position summary

A\$'000	FY15A	FY16A	FY17A	Jan18A (YTD)
Current assets				
Cash and cash equivalents	109	208	92	359
Trade and other receivables	112	93	285	680
Construction work in progress	-	-	1,507	3,809
Other current assets	1	8	8	-
Total current assets	222	309	1,892	4,848
Non-current assets				
Work in progress	-	-	867	8,747
Freehold land	30,900	30,900	26,310	26,310
Total non-current assets	30,900	30,900	27,177	35,057
Total assets	31,122	31,209	29,069	39,905
Current liabilities				
Trade and other payables	(277)	(183)	(1,506)	(470)
Other current liabilities	(92)	(1)	(1)	(68)
Total current liabilities	(369)	(184)	(1,507)	(539)
Non-current liabilities				
Loans	(63,998)	(35,819)	(39,017)	(52,577)
Total non-current liabilities	(63,998)	(35,819)	(39,017)	(52,577)
Total liabilities	(64,367)	(36,003)	(40,524)	(53,115)
Net assets/(liabilities)	(33,245)	(4,794)	(11,455)	(13,210)

ICP - income statement summary

A\$'000	FY15A	FY16A	FY17A	Jan18A (YTD)
Income				
Rental income	2,550	2,174	1,704	531
Debts forgiven	-	34,071	-	-
Interest	1	3	12	3
Other revenue	663	499	1,396	382
Total income	3,214	36,747	3,112	916
Expenses				
Materials and services	(4,296)	(3,820)	(4,345)	(2,449)
Finance costs	(3,923)	(4,019)	-	-
Other expenses	(476)	(455)	(836)	(224)
Total expenses	(8,695)	(8,294)	(5,181)	(2,672)
Total comprehensive income	(5,481)	28,453	(2,069)	(1,756)

Comments

- ICP's main activities include the ownership and operation of Ipswich City Square shopping mall (Civic Space) and the redevelopment of this precinct, including the development of the new Administration Building.
- During FY16A, Council recognised the impact of historical economic conditions on the re-development activities at the Ipswich City Square and resolved to partially forgive the loan in the amount of \$34 million and amended the interest rate of the remaining loan to zero percent. The loan does not have a principal repayment schedule or minimum monthly repayments.
- Refer to section 1.13 for a detailed list of properties currently owned by ICP.

Note: Totals may vary slightly due to rounding. Source: ICP Financial Reports FY15, FY16, FY17 and FY18 YTD management accounts



1 Controlled Entities: current position

1.13 ICP current properties

Below is a summary of the properties currently owned by ICP.

Properties currently owned by ICP

Property	Location	Type of property	Purchased from	Year purchased	Purchase price (\$)	Value as at 28-Feb-18	Comment
Ipswich City Square	163 Brisbane Street, Ipswich	Building and freehold	Memocorp Australia Pty Ltd	2009	45,000,000	25,850,000	Building and part of land disposed of when the Icon Tower was sold to Leighton Properties in December 2011. Balance of property held for development including the Council Administration Building and the Civic Space
Murphy's Pub	5 Union Place, Ipswich	Freehold	Squiggles Investments Pty Ltd	2014	400,000	460,000	Heritage listed property to be restored
2 Bell Street	2 Bell Street, Ipswich	Investment property	2 Bell St Pty Ltd ATF the Bell Street Unit Trust	2018	5,900,000	6,220,137	Purchase of property settled in February 2018. Only the deposit for 2 Bell street is accounted for in the balance sheet as at Jan18A (YTD)
Total					51,300,000	32,530,137	

Note: Provided by Council personnel



Controlled Entities: audit reports

Scope and limitations

Glossary of terms

Executive summary

1. Controlled Entities: current position
2. [Controlled Entities: audit reports](#)
3. Non-continuing Group: options available
4. Non-continuing Group: project plan
5. ICP: Civic Space
6. Appendices



2. Controlled Entities: audit reports

2.1 Queensland Audit Office report

On 12 December 2017 the QAO issued a FY17 audit for the Controlled Entities in which it reported to management on various significant deficiencies. The below table provides a high level summary of the key issues raised by the QAO. The management team of each of the Controlled Entities has responded to QAO's recommendations.

Key: ● Significant deficiency ● Deficiency

Entities	Risk	Findings and risks	Risks/implications for ICC/Controlled Entities identified by QAO
ICP	●	<p>Procurement</p> <ol style="list-style-type: none"> ICP undertook an expression of interest process to identify firms interested in the development of Council's new Administration Building. Three firms were selected. However, the results of the expression of interest achieved poor outcomes for ICP in terms of lack of competition and potentially reduced value for money from the project. QAO was unable to assess or conclude on the appropriateness of the expressions of interest process as two of the three offers were inadequate (only EPC was adequate). 	<p>Procurement</p> <ol style="list-style-type: none"> ICP cannot demonstrate that it has achieved value for money through its expression of interest campaign where EPC was selected as the preferred developer. Although the Development Agreement between EPC and ICP has now been terminated, ICP should still review its expression of interest processes and the adequacy of ICP's processes to ensure it achieves the best possible outcome for new projects.
	●	<p>Procurement</p> <ol style="list-style-type: none"> ICP's procurement policy requires ICP to obtain three quotes from suppliers where the cost of the supply is more than \$20,000 (excl GST). The QAO found instances where three quotes for supplies over \$20,000 were not obtained. ICP engaged Knight Frank to manage the CBD shopping complex who managed a number of contract extensions. On expiry of the contracts, extension approval was considered in the adoption of ICP's budget as opposed to going back to market. ICP made a \$10,000 contribution to the Red and White Foundation Ltd (Ipswich Grammar School). Three of ICP's directors' children went to Ipswich Grammar School and declared a conflict of interest. 	<p>Procurement</p> <ol style="list-style-type: none"> The failure to obtain three quotes means ICP is unable to demonstrate that it has achieved value for money. The failure to go back to the market after the expiry of contracts indicates that ICP may not have received value for money. The contribution to the Red and White Foundation Ltd does not align with ICP's objectives as specified in its Constitution.
	●	<p>Cash and financing</p> <ol style="list-style-type: none"> The preparing officer does not sign the automatically produced bank reconciliation statements. 	<p>Cash and financing</p> <ol style="list-style-type: none"> A lack of formal independent review may result in inappropriate transactions not being detected and dealt with in timely manner.
	●	<p>Lodgment of audited financials</p> <ol style="list-style-type: none"> ICP failed to lodge audited financial statements and prepare a director's report. 	<p>Lodgment of audited financials</p> <ol style="list-style-type: none"> ICP breached s319 of the <i>Corporations Act 2001</i> and QAO reported the breach to ASIC.
ICE/ICEI	●	<p>Cash and financing</p> <ol style="list-style-type: none"> The preparing officer does not sign the automatically produced bank reconciliation statements. 	<p>Cash and financing</p> <ol style="list-style-type: none"> A lack of formal independent review may result in inappropriate transactions not being detected and dealt with in a timely manner.

Source: Queensland Audit Office reports for each of the controlled entities dated 12 December 2017.



2. Controlled Entities: audit reports

2.1 Queensland Audit Office report (continued)

Key: ● Significant deficiency ● Deficiency

Entities	Risk	Findings and risks	Risks/implications for ICC/Controlled Entities identified by QAO
ICD	●	<p>Inventory and land sales</p> <ol style="list-style-type: none"> The sale of Redbank Plains – Retail and Residential were not offered to the market to determine their value. The development agreement for Redbank Plains – Retail and Residential was entered into on 16 April 2013 and was rescinded on 10 November 2014 and a new agreement entered into on the same date. Signatories representing the two developer companies and the guarantor company were the same. 	<p>Inventory and land sales</p> <ol style="list-style-type: none"> ICD may have not received value for money in the transactions as they were not offered to the market and, consequently, there was no opportunity for the market to determine their value. As a result of the time lapse between the 2013 Development Agreement and the sale in July 2016, ICD would have difficulty demonstrating compliance with its procurement policy concerning open and effective competition and fair dealing with the market. Potential damage to the reputation of Council.
	●	<p>Cash and financing</p> <ol style="list-style-type: none"> The preparing officer does not sign the automatically produced bank reconciliation statements. ICD has no independent approval of expenditure that is paid on debit card held by four ICP officers. 	<p>Cash and financing</p> <ol style="list-style-type: none"> A lack of formal independent review may result in inappropriate transactions not being detected and dealt with in a timely manner. Potential for misappropriation of funds, fraud and consequential reputational damage.
IMP	●	<p>Governance</p> <ol style="list-style-type: none"> Unsigned board minutes have been identified, which indicates lack of compliance, responsibility and accountability. An annual budget had not been produced as at the date of the QOA report. 	<p>Governance</p> <ol style="list-style-type: none"> Unsigned board minutes may result in non-compliance with section 251A(2) of the <i>Corporations Act 2001</i>, lack of accountability and governance and may have no legal standing if reliance upon them is required. Limited accountability over financial performance.
	●	<p>Procurement</p> <ol style="list-style-type: none"> IMP was unable to provide sufficient documentation that could demonstrate that the conduct of the process of awarding a contract for the final design workshop of Queensland Raceway achieved value for money, open and effective behaviour and fair dealing. Officers of IMP were able to approve their own travel costs. IMP's former General Manager provided blanket expenditure approval for certain repetitive expenditure (fitout costs, furniture, IT support, rent, office support). This removed the requirement for the General Manager's approval on these expense items. Consequently, this authority continued to be used post the General Manager's employment termination date. 	<p>Procurement</p> <ol style="list-style-type: none"> IMP may not have achieved value for money in awarding the contract. Lack of accountability in relation to expenditure. Expenditure was being inappropriately authorised as the approver was no longer employed by IMP.
	●	<p>Cash and financing</p> <ol style="list-style-type: none"> The preparing officer does not sign the automatically produced bank reconciliation statements. 	<p>Cash and financing</p> <ol style="list-style-type: none"> A lack of formal independent review may result in inappropriate transactions not being detected and dealt with in a timely manner.

Source: Queensland Audit Office reports for each of the controlled entities dated 12 December 2017.

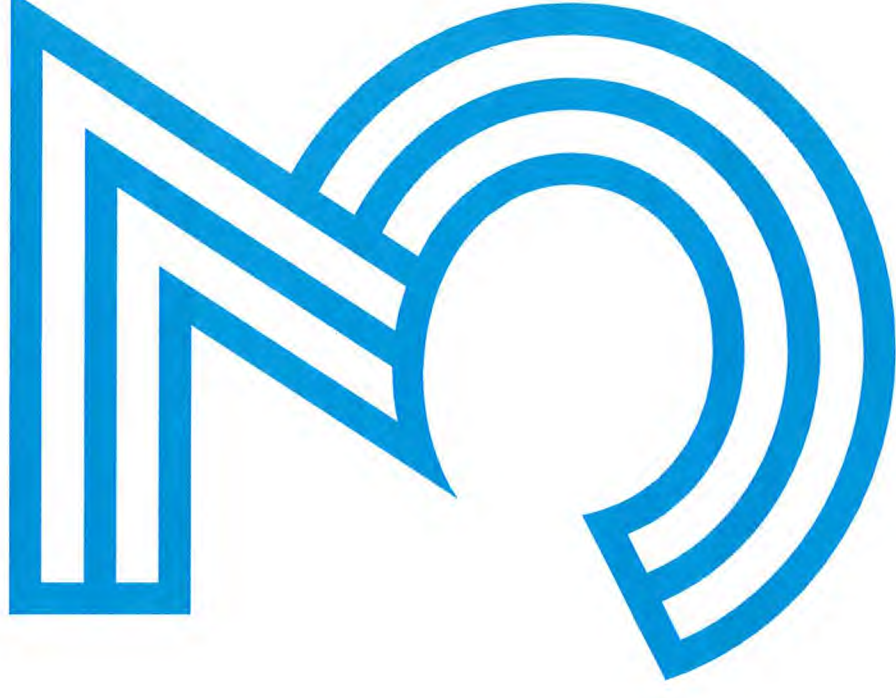
Non-continuing Group: options available

Scope and limitations

Glossary of terms

Executive summary

1. Controlled Entities: current position
2. Controlled Entities: audit reports
3. [Non-continuing Group: options available](#)
4. Non-continuing Group: project plan
5. ICP: Civic Space
6. Appendices



3 Non-continuing Group: options available

3.1 Consider solvency

The below table summarises solvency and how the directors of the Non-continuing Group entities may obtain comfort each entity is solvent, following their own due diligence, for entities that have material loans and outstanding obligations. The directors of the Non-continuing Group may wish to obtain their own independent advice regarding solvency.

Questions

McN answers

What is solvency?

- Section 95A of the *Corporations Act 2001 (Cth)* states that:
 - a person [entity] is solvent if, and only if, the person is able to pay all the person's [entity's] debts; as and when they become due and payable; and
 - a person [entity] who is not solvent is insolvent.

How do you test an entity's solvency?

- There are several tests of solvency, including:
 - the cash flow test (consistent with the definition of solvency set out above); and
 - the balance sheet (statement of financial position) test.
- The balance sheet test for solvency is key in a scenario where the entity will be wound-up and considers whether an entity has sufficient assets to meet its liabilities.

How do the directors confirm solvency?

- If the Non-continuing Group entities are to be voluntarily wound up using members' voluntary liquidations, the directors of each entity in the Non-continuing Group will be required to sign a declaration stating that the entity is solvent and able to pay its debts in full within the next 12 months.
- The IMP statement of financial position as at 31 January 2018 discloses a net asset deficiency of \$415k (the book value of assets is less than the book value of liabilities). IMP has requested that Council forgive the outstanding loan of \$450k, which would provide IMP with a small net asset surplus.
- If the directors of the Non-continuing Group entities consider there is a risk any of these entities are not solvent, Council should consider whether it may agree to:
 - forgive any outstanding loans to the entities;
 - provide funds to settle any outstanding debts that the entity is unable to settle itself; and
 - consider whether it would be prepared to consider (on a case by case basis) providing funds to settle any liabilities that may arise in the future once the entities are in MVL.
- A solvent entity can be wound-up by way of a MVL.
- If an entity is insolvent, an MVL is not appropriate. If Council is prepared to provide financial support to each of the Non-continuing Group as set out in the above answer, each of the Non-continuing Group Controlled Entities is likely to be solvent. An MVL would therefore be appropriate.
- Further information regarding the appropriateness of the MVL process for the Non-continuing Group entities is set out on the following page.

How do you wind-up a solvent entity?

3 Non-continuing Group: options available

3.2 Consider members' voluntary winding-up

The below table summarises why an MVL would be an appropriate avenue for the Non-continuing Group to pursue in order to be wound-up. This includes benefits such as minimising potential legal claims and protecting reputation for the Non-continuing Group, as well as Council.

Questions

McN answers

- What is an MVL?**
- A members' voluntary liquidation is where the shareholders, in this case Council, of a solvent entity resolve to wind up the entity and appoint a Liquidator to realise the remaining assets of the entity (if any) to distribute the proceeds of the assets to the entity's members.
 - An MVL allows for an in specie distribution to creditors. An in specie distribution is where assets can be distributed to the entity's shareholder(s) in their current form, instead of first realising/selling the asset and then distributing the cash proceeds to the shareholder(s) (example: the transfer of real property).
 - Only a solvent entity can enter into a MVL.

- Why is an MVL appropriate for the Non-continuing Group?**
- Should the Non-continuing Group's directors resolve that the relevant entities in the Non-continuing group are solvent, MVLs may be an appropriate strategy to wind-up the entities. Further details regarding solvency are set out on the previous page.
 - An MVL is not considered an insolvency procedure and therefore minimises the risk of reputational damage to the Non-continuing Group and Council. A company that enters into an MVL is deregistered by ASIC at the end of the process and ceases to exist.
 - It is a cost-effective way of finalising the affairs of each entity in the Non-continuing Group.
 - All of the entities' liabilities will be ascertained and can be satisfied in full.
 - An MVL allows for assets to be distributed in specie and, accordingly, the Non-continuing Group's remaining assets at the time of the winding-up will not be required to be realised and sold for a distribution to members to occur.

Who conducts an MVL?

- While anyone can conduct an MVL, it is usually in an entity's best interest to appoint a registered liquidator as they have the technical capabilities and relevant precedents to conduct the MVL processes in an efficient and professional manner.

Is it possible the MVL will result in a CVL?

- An MVL may be required to transition to a creditors' voluntary liquidation, if an entity is unable to satisfy all of its obligations in full (i.e. it is insolvent).
- If the directors of any of the Non-continuing Group entities determine that any of the entities are insolvent, Council may wish to provide financial assistance to the relevant entities to avoid an insolvency appointment (CVL).

Is it possible to deregister the entities without first undertaking an MVL?

- Deregistration of a company by an application to ASIC without first undertaking an MVL is possible; however, an MVL would provide the Non-continuing Group greater protection against any legal or reputation issues in the future as it settles and deals with all claims during the process.
- We note that Council received a letter dated 14 November 2017 from IMP requesting Council consent to voluntarily deregister IMP. We understand IMP did not actively operate. Accordingly, Council may wish to provide its consent for IMP to be de-registered, if it is satisfied that there are unlikely to be any claims made against IMP in the future.
- The preparation phase to wind-up the Non-continuing Group will assist to identify any undisclosed obligations or liabilities.

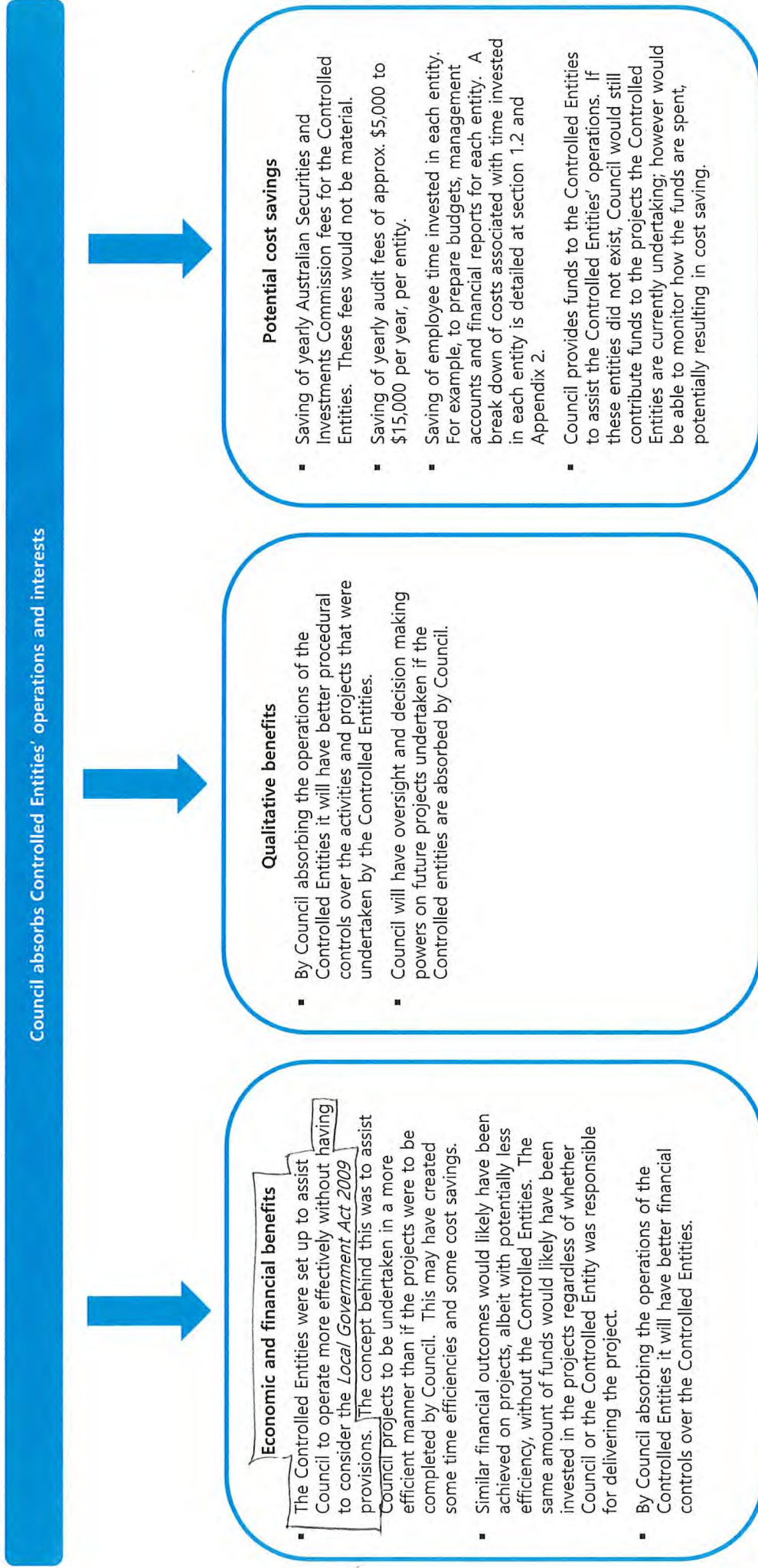
Can ICP be wound up?

- We understand that ICP is not being considered to be wound-up in the short term as there are currently Development Agreements underway to develop, amongst other things, Council's new Administration Building and Civic Space.
- The voluntary wind-up of ICP may be considered at a later date.

3 Non-continuing Group: options available

3.3 Benefits of Council absorbing Non-continuing Group activities

The below diagram outlines the economic and financial benefits, the qualitative benefits and the potential cost savings to Council if the operation of the Controlled Entities were absorbed by Council.



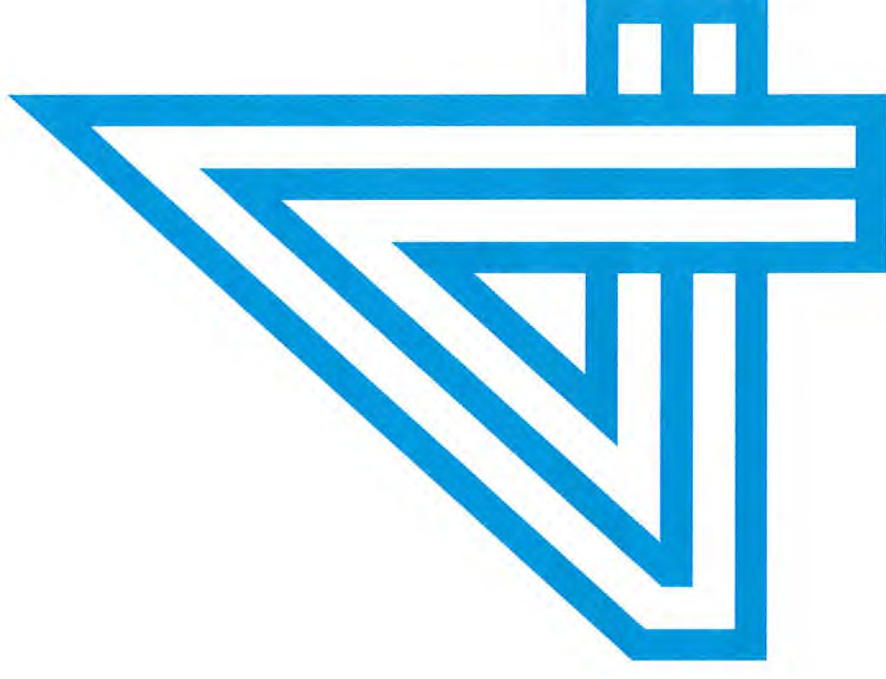
Non-continuing Group: project plan

Scope and limitations

Glossary of terms

Executive summary

1. Controlled Entities: current position
2. Controlled Entities: audit reports
3. Non-continuing Group: options available
4. [Non-continuing Group: project plan](#)
5. ICP: Civic Space
6. Appendices



4 Non-continuing Group: project plan

4.1 Actions prior to winding-up

The below tables provide a summary and description of actions that can be taken by the Non-continuing Group in preparation for being wound-up. Recommendations include settling liabilities and selling/transferring assets to Council. The constitution of each entity in the Non-continuing Group allows for an in specie distribution of assets. Accordingly, available assets will not need to be realised/sold for a distribution to occur if any assets remain at the time the winding-up commences or if any assets are later identified.

Recommended actions prior to commencing winding up process

Entity	Confirm solvency	Current ongoing activities	Transfer activities to Council	Terminate lease	Council to forgive loan	Collect debtors or assign to Council	Pay creditors	Potential GST, PAYG and FBT	Real property	FF&E	Shareholder of another entity	Service arrangement	In specie distribution in MVL (if required)
ICEI	✓					✓		✓					✓
IMP	✓				✓		✓	✓				✓	✓
ICD	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓
ICE	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓

Recommended actions prior to commencing winding up process

- All**
- **Solvency** – Confirm solvency (referred to at section 2.1 of this report).
 - **Tax** – Ensure all tax liabilities (GST, PAYG and FBT) have been paid and cancel GST registrations. Council has advised that the entities in the Non-continuing Group are not taxable entities. If this is incorrect, the entities should also ensure any outstanding income tax returns are lodged and any resulting income tax liabilities are paid.
 - **Insurance** – Only once a liquidator has been appointed, cancel insurance under Council's public liability policy for ICE, ICEI and IMP and cancel Industrial Special risk policy for ICD (\$4,546.15 per month). Council has advised that there are no recent or pending insurance claims for any of the entities in the Non-continuing Group.
 - **Asset transfers** – In each case where a Controlled Entity's assets are transferred to Council, this may result in a reduction of the loan owed by the entity to Council for the value of the transferred asset. If there is no loan amount (or the Asset value is greater than the loan amount) the resulting amount owed by Council to the entity for the asset can be distributed to Council by way of an in specie distribution as part of the winding up, which finalises that amount.
- ICEI**
- **Distributions/debtors** – We have been advised by Council personnel that there is no further revenue to be collected by ICEI in relation to the Services Queensland partnership. There were no other known collectable debtors as at 30 November 2017.
- IMP**
- **Loan** – Council to forgive loan (\$450,000).
 - **Creditors** – Settle outstanding creditors. There is \$623 in outstanding creditor liabilities as at 30 November 2017 (creditors include ICD and ICE only).
 - **Service Agreement** – Terminate service agreement with ICD for use of office space at 143 Brisbane Street, Ipswich. Arrange for QuickBooks accounting system to be transferred to Council (Council has advised that it is necessary to retain the IMP QuickBooks account).
 - **De-register entity** – Council to consider request for consent to de-register the entity. Alternatively, IMP may be wound up with the other Non-continuing Group Controlled Entities.

Source: Non-continuing Group Financial Statements (FY15, FY16 and FY17), management accounts and various other information provided by Council.



4 Non-continuing Group: project plan

4.1 Actions prior to winding-up (continued)

Entity	Recommended actions prior to commencing winding up process
ICD	<ul style="list-style-type: none">▪ Development projects/activities – Ensure all funds have been received from development projects, or alternatively, assign to Council the right to receive those funds.▪ Financial contribution – Consider the financial contribution ICD intends to give to Council to fund infrastructure costs on the extension of Coldham Street.▪ Leases – Terminate the lease with ICE/Fire Station 101. Also terminate the lease with Council for Level 4, 143 Brisbane Street, Ipswich. Council has advised that this lease can be cancelled at any time by mutual agreement.▪ Debtors – Collect all outstanding debtors (\$1,078 as at 30 November 2017) or assign the debtors to Council to collect. All debtors are less than 90 days and are internal to the Non-continuing Group (IMP, ICE and ICP). If they are assigned to Council, they may then be forgiven by Council if those entities do not have the funds to pay them.▪ Real property – Transfer ownership of 101 Limestone Street, Ipswich to Council. A valuation undertaken by Taylor Byrne on 10 October 2017 indicates a value of \$2 million. A stamp duty exemption may be available to Council. Legal advice in relation to stamp duty should be sought prior to the transfer of the property.▪ FF&E – Transfer office furniture and fittings owned by ICD to Council (\$26,654 as at 31 December 2017). A formal valuation of these assets has not been conducted.▪ Other payables – Settle accrued project and administrative support costs (\$168,495) and unearned revenue (\$8,799). Council may determine to write-off these amounts if they are internal.
ICE	<ul style="list-style-type: none">▪ Operations – Transfer operation of Fire Station 101 to Council, including any contracts and service arrangements entered into by Fire Station 101.▪ Lease – Terminate building lease of 101 Limestone Street, Ipswich with ICD, or novate lease to Council.▪ Debtors – Collect all outstanding debtors (\$242 as at 30 November 2017) or assign the debtors to Council to collect. All debtors are less than 90 days and are internal to the Non-continuing Group. IMP was the only debtor as at 30 November 2017. If they are assigned to Council, they may then be forgiven by Council if those entities do not have the funds to pay them.▪ Creditors – Settle outstanding creditors. There were \$14,734 in outstanding creditor liabilities as at 30 November 2017 (creditors include Grafitti Murals Com, Red Chalk by Kate Perry, Cerebro Pty Ltd, Origin Energy, ICD and Council).▪ FF&E – Transfer fitout, furniture and equipment located at 101 Limestone Street, Ipswich which is utilised by Fire Station 101 to Council (\$74,986 as at 31 December 2017). A formal valuation of these assets has not been conducted and is not likely to be required for the transfer to occur.▪ Shareholding – Collect distribution of funds from ICEI (subsidiary) resulting from the wind-up of ICEI and distribute those funds to Council.▪ Service Arrangements and suppliers – Service agreements include seconded Council employees to ICE, Fuji Xerox, memberships with the public, Standing Offer Arrangement between ICE and The State of Queensland (this is not an exhaustive list of agreements ICE has in place). Agreements and supplier accounts should be transferred to Council where possible, or cancelled, with new agreements established with Council as required.

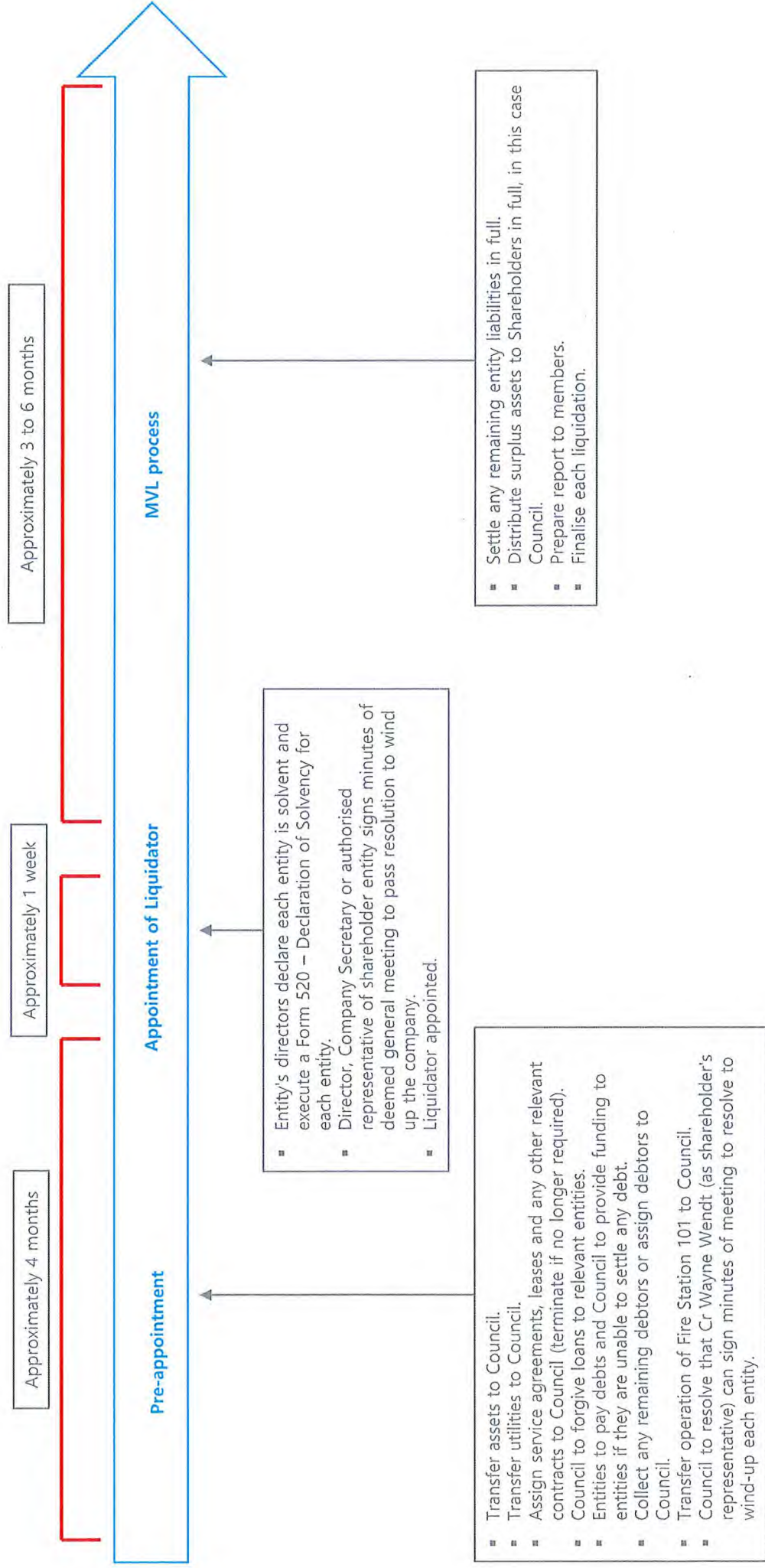
Entity	Additional work required and to be conducted by Council staff
Non-continuing Group	<ul style="list-style-type: none">▪ ICD – Reconciliation of the gains and losses on investments associated with loans provided by Council including details regarding loan repayments and interest accrued.▪ ICE – Detailed list of agreements, contracts and memberships and strategy to novate to Council.▪ ICP – Detailed list of buying and selling of land between ICP and Council.▪ All entities – Reconciliation of asset and liability transfers between all entities

Source: Non-continuing Group Financial Statements (FY15, FY16 and FY17), management accounts and various other information provided by Council.

4 Non-continuing Group: project plan

4.2 MVL Timeline

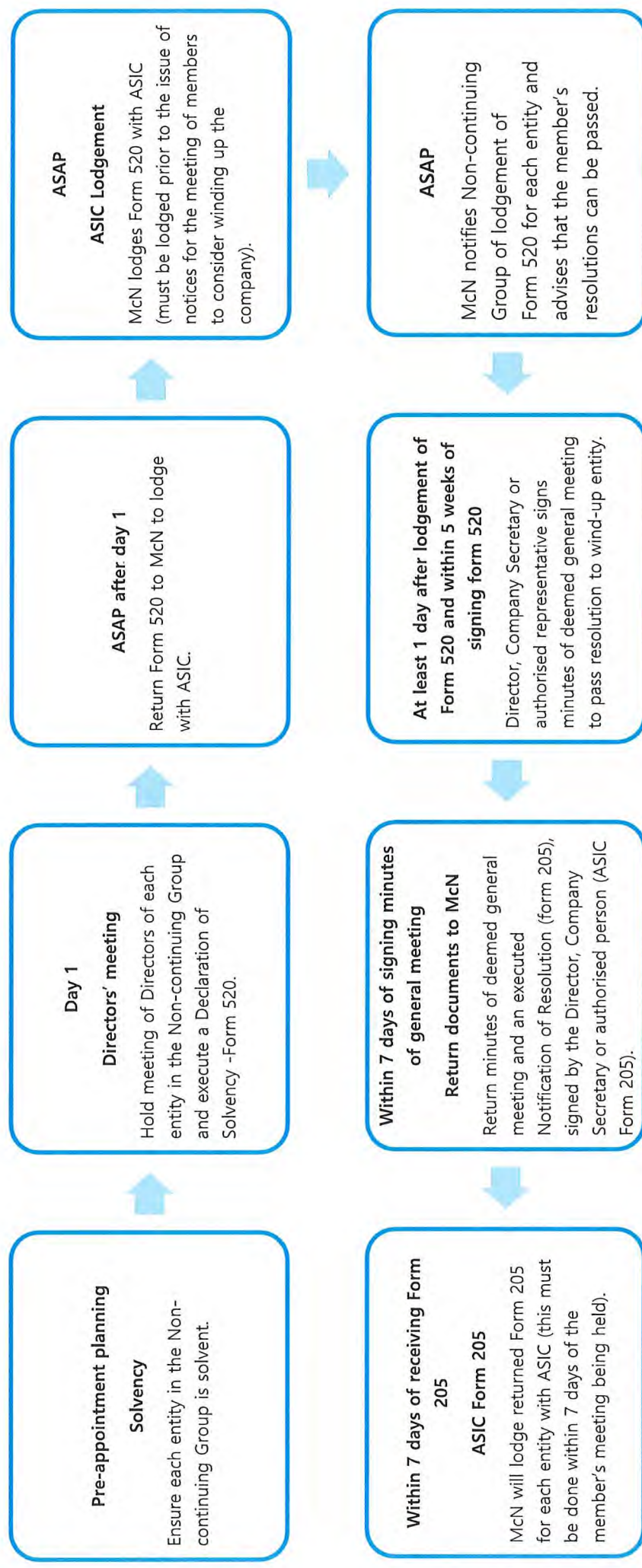
The below diagram provides an estimated timeline of the MVL process. The duration of the liquidations of each entity in the Non-continuing Group will vary depending on whether there are assets remaining to be transferred to Council or realised, debts to settle and contracts/agreements to terminate or assign to Council. Should Council wish to wind up the Non-continuing Group, Council could make material savings (in relation to the annual financial statements and audit) if the winding up commences before 30 June 2018.



4 Non-continuing Group: project plan

4.3 Steps to place Non-continuing group into MVL

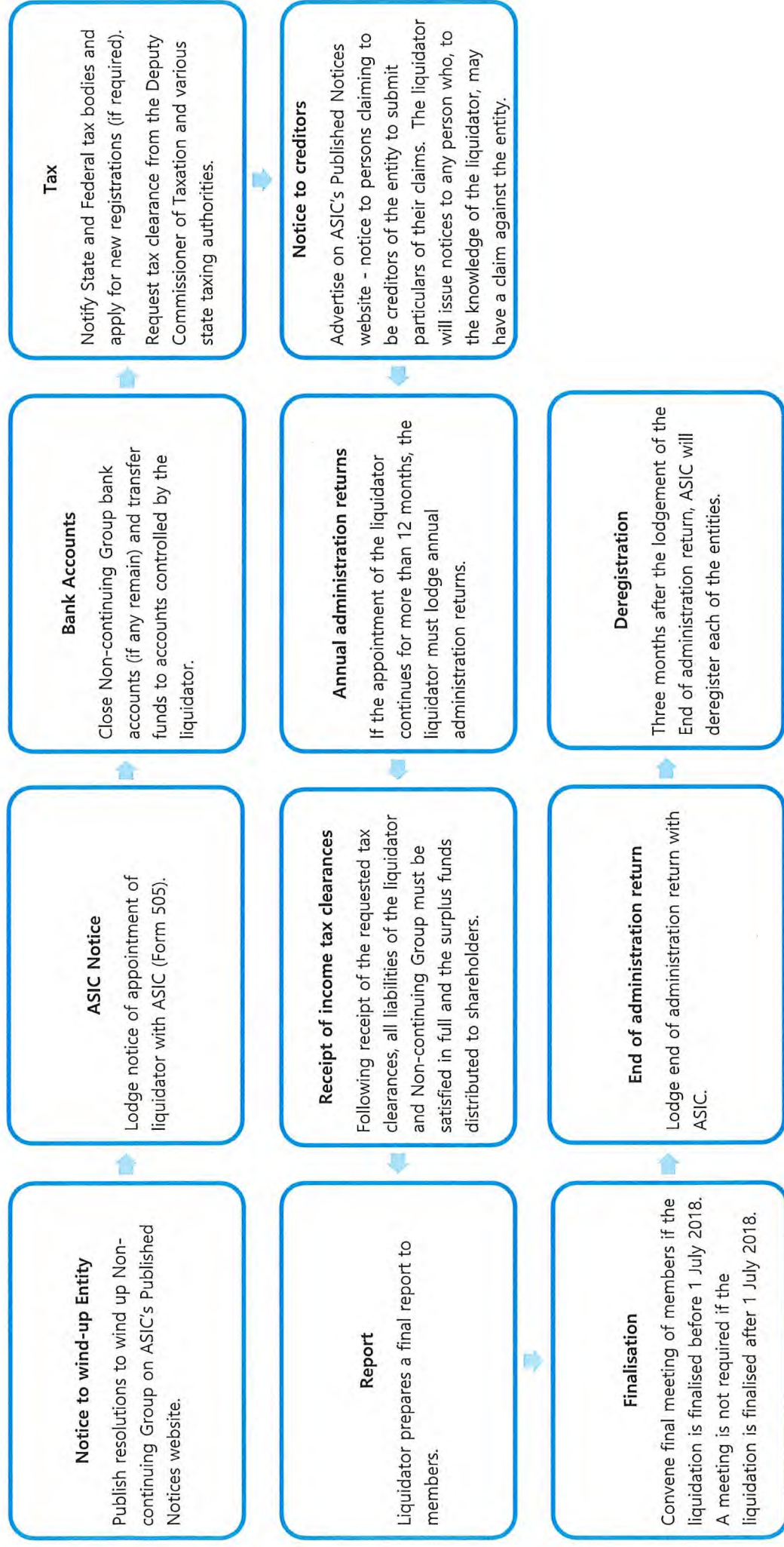
The below flow chart details steps the directors of each entity in the Non-continuing Group are required to take to place each entity into MVL. If Council wishes to proceed with the winding up of any or all of the Controlled Entities, we would provide you with a further letter with detailed instructions to complete each form along with pre-populated forms for the relevant person to sign.



4 Non-continuing Group: project plan

4.4 General steps taken by a Liquidator in a MVL

The below flow chart details the general steps a Liquidator will take during an MVL process. Based on an initial review of each entity in the Non-continuing Group, it is estimated that it will take approximately six months to wind-up the entities depending on how much of the project plan is effected prior to commencement of the winding-up.



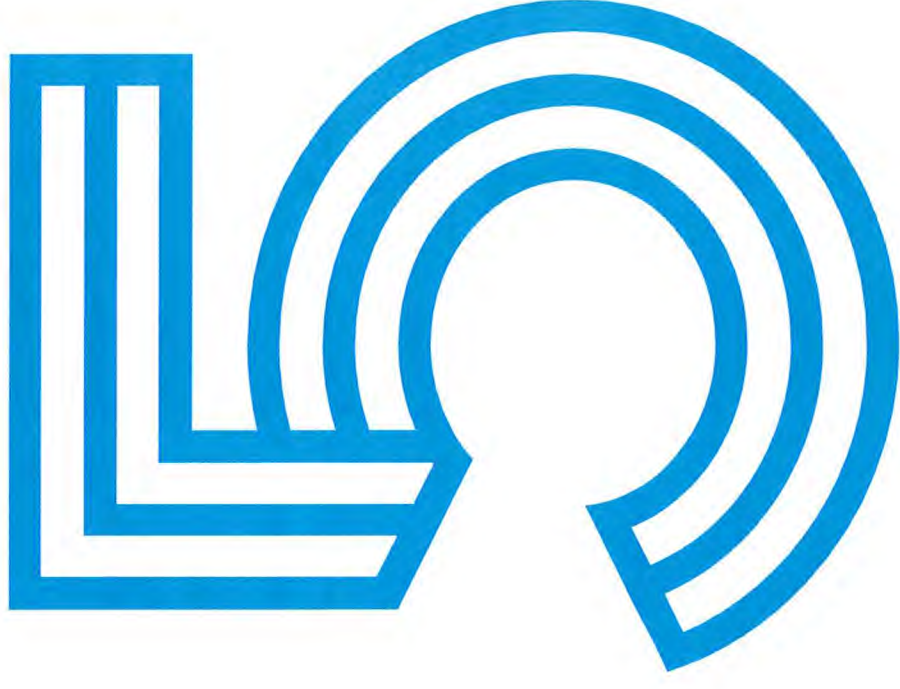
ICP: Civic Space

Scope and limitations

Glossary of terms

Executive summary

1. Controlled Entities: current position
2. Controlled Entities: audit reports
3. Non-continuing Group: options available
4. Non-continuing Group: project plan
5. [ICP: Civic Space](#)
6. Appendices



5 ICP: Civic Space

5.1 Summary of the development of the Civic Space

Council has engaged ICP to develop the new Civic Space as part of its plan to revitalise the Ipswich CBD. Based on our review of the DAIC, we have not identified any issues that may affect the outcome of the project. We understand that as a result of the termination of the DMA and AFL, the DAIC will be altered/extended to also encompass the development of Administration Building by ICP.

Topic	McN comment
Civic Space	<ul style="list-style-type: none">▪ Council has engaged ICP to develop a Civic Space in Ipswich CBD, which is located on part of Lot 531 on CP SL 12439 (owned by ICP).▪ Council has advised that the development of the Civic Space is a key step to the revitalisation of the Ipswich city centre.
Development agreement	<ul style="list-style-type: none">▪ The DAIC was executed by Council and ICP on or around 15 June 2017.▪ Under the DAIC, ICP will transfer the Land to Council free of encumbrances and Council will pay ICP the land component plus GST (\$11 million plus GST). Works on the land may commence before the land is transferred.▪ Council may want to consider whether it may be more efficient to transfer funds to ICP to complete works rather than pay ICP a land component fee.
Engaging a builder	<ul style="list-style-type: none">▪ It is ICP's responsibility to seek a builder at a fixed or guaranteed maximum price for the design and construction.▪ ICP then charges a development fee to Council of 5% of project costs, being approx. \$2.6 million (5% of budgeted projects fees of \$52.04 million)▪ The appointment of a builder has been placed on hold pending the appointment of a builder for the development of Council's Administration Building as Council personnel are considering the following matters:<ul style="list-style-type: none">– appointing the same builder for the Civic Space and the Administration Building may:<ul style="list-style-type: none">> result in a more efficient (and cost-effective) completion of both projects; and> streamline the outcome and main goal of revitalising the Ipswich City centre.– however, appointing different builders for the Civic Space and the Administration Building may:<ul style="list-style-type: none">> allow each builder to commit appropriate resources to each project without the distraction of managing two projects;> minimise the impact of builder failure (i.e. the failure of one builder would impact directly only on one project); and> mitigate against the risk of Council (or ICP) being seen to favour one contractor.
Additional considerations	<ul style="list-style-type: none">▪ Ensure a formal tender process is completed prior to engaging a builder and conduct due diligence procedures. Further, ensure the builder will be able to deliver completion of the project by Council's required completion date. We understand this to be in late 2018 in conjunction with the completion of the Administration Building which will now be incorporated in the DAIC and developed by ICP.▪ Document detailed reasons and justifications for decisions made in relation to the development of the Civic Space.▪ Seek advice and clarification on any documentation that could materially affect the outcome of the development.▪ Seek advice from property experts in relation to rental and other terms before seeking tenants.
Does the DAIC represent appropriate commercial and financial arrangements for Council?	<ul style="list-style-type: none">▪ We have not seen anything to suggest that the following is unreasonable:<ul style="list-style-type: none">– the obligations imposed on Council by the DAIC; assuming that a 5% development fee is required to support ICP's ongoing overheads; and– awaiting a decision regarding the builder for the Administration Building prior to appointing a builder for the Civic Space.
Administration Building	<ul style="list-style-type: none">▪ The DAIC will be extended/altered to include the development of the Administration Building by ICP as a result of Council's decision to own the Administration Building resulting in the termination of the DMA and AFL. This was discussed in detail in our other reports.

Appendix 2

Controlled Entities: Council seconded employees

Below is a list of the full-time Council employees who are seconded to the Controlled Entities. The table below identifies the forecast percentage of time invested by Council employees in each entity for FY18 and the portion of their wage associated with their time invested in each Controlled Entity. Names have been suppressed for privacy reasons and are available on request.

Council employees forecast time distributed between Controlled Entities for FY18 (note all costs below include on-costs)																		
Employee	Position	IMP	FTE %	Fee Value (\$)	ICD	FTE %	Fee Value (\$)	ICE	FTE %	Fee Value (\$)	ICEI	FTE %	Fee Value (\$)	ICP	FTE %	Fee Value (\$)	Total FTE %	Total \$
Name suppressed for privacy	Administrative	10%	6,461	10%	6,461	5%	3,230	5%	3,230	70%	45,227	100%	64,609					
Name suppressed for privacy	Operational	2%	4,043	-	-	-	-	-	-	-	-	-	-					4,043
Name suppressed for privacy	Finance	2%	2,456	2%	2,456	10%	12,280	2%	2,456	20%	24,559	36%	44,207					
Name suppressed for privacy	Administrative	2%	1,968	-	-	-	-	-	-	-	-	-	-					1,968
Name suppressed for privacy	Administrative	1%	984	1%	984	1%	984	1%	984	5%	4,920	9%	8,855					
Name suppressed for privacy	Administrative	1%	923	1%	923	1%	923	1%	923	5%	4,615	9%	8,307					
Name suppressed for privacy	Finance	-	-	5%	5,089	-	-	-	-	5%	5,089	10%	10,178					
Name suppressed for privacy	Finance	2%	3,473	2%	3,473	2%	3,473	2%	3,473	2%	3,473	10%	17,363					
Name suppressed for privacy	Operational	1%	3,010	-	-	-	-	-	-	-	-	-	-					3,010
Name suppressed for privacy	Finance	5%	1,674	5%	1,674	25%	8,369	5%	1,674	60%	20,085	100%	33,475					
Name suppressed for privacy	Operational	5%	9,249	15%	27,748	-	-	-	-	-	-	-	-					36,997
Name suppressed for privacy	Operational	-	-	-	-	-	-	-	-	-	-	-	-					227,701
Name suppressed for privacy	Administrative	1%	722	1%	722	1%	722	1%	722	1%	722	5%	3,610					6,499
Name suppressed for privacy	Finance	2%	2,245	2%	2,245	30%	33,668	2%	2,245	20%	22,445	56%	62,847					
Name suppressed for privacy	Operational	-	-	-	-	-	Unknown	-	-	-	-	-	-					-
Name suppressed for privacy	Operational	-	-	-	-	10%	17,401	5%	8,700	-	-	-	-					26,101
Name suppressed for privacy	Operational	-	-	-	-	-	Unknown	-	-	-	-	-	-					-
Name suppressed for privacy	Operational	-	-	-	-	-	-	-	-	-	-	-	-					-
Name suppressed for privacy	Operational	-	-	-	-	-	-	-	-	-	-	-	-					153,750
Name suppressed for privacy	Operational	-	-	-	-	-	-	-	-	-	-	-	-					134,784
Name suppressed for privacy	Operational	-	-	-	-	-	-	-	-	-	-	-	-					119,704
Name suppressed for privacy	Operational	-	-	-	-	100%	101,780	100%	101,780	-	-	-	-					101,780
Name suppressed for privacy	Operational	-	-	-	-	100%	45,572	100%	45,572	-	-	-	-					45,572
Name suppressed for privacy	Finance	-	-	-	-	-	-	-	-	-	-	-	-					43,776
Total for the year.		-	37,207	-	51,774	-	228,401	-	24,407	-	813,738	-	1,155,527					
Average Estimated monthly charge:		-	3,101	-	4,314	-	19,033	-	2,034	-	67,812	-	96,294					

Source: Provided by Council personnel

