

Landcom 2009 / 2010

Statement of Corporate Intent



LANDCOM

NEW SOUTH WALES
GOVERNMENT TRADING ENTERPRISES

STATEMENT OF CORPORATE INTENT

ORGANISATION: Landcom
PERIOD: Commencing 1 July 2009

This Statement of Corporate Intent has been agreed between:

William Kirkby-Jones AM
Chairman
Landcom
on behalf of the Board

First Voting Shareholder
The Honourable Eric Roozendaal MLC
Treasurer

Sean O'Toole
Managing Director
Landcom

Second Voting Shareholder

1. Objectives

PRINCIPAL OBJECTIVES under the *Landcom Corporation Act 2001* are:

- To be a successful business and, to this end: to operate at least as efficiently as any comparable businesses, and to maximise the net worth of the State's investment in it.
- To exhibit a sense of social responsibility by having regard to the interests of the community in which it operates.
- To protect the environment by conducting its operations in compliance with the principles of ecologically sustainable development contained in section 6 (2) of the Protection of the Environment Administration Act 1991.
- To exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates.
- To undertake, or assist the Government in undertaking, strategic or complex urban development projects.
- To assist the Government in achieving its urban management objectives.
- To be a responsible developer of residential, commercial and industrial land.

Each of the principal objectives is of equal importance.

OUR "MODUS OPERANDI"

Landcom's *Modus Operandi* is to generate metropolitan outcomes for Government by:

- Operating within the strategic context set for it by the Metropolitan and regional Strategy, and the State Plan.
- Capitalising on available opportunities, especially Government owned land, to leverage more advantageous outcomes.
- Partnering with local government, where the development outcomes are mutually beneficial.
- Enlisting and coordinating the support of State Agencies, to encourage better integration in the delivery of projects that are significant for Government.
- Partnering with the development industry to leverage and direct private sector investment as well as to enhance Landcom's capacity to deliver.
- Operating on a commercial basis, while guided by sound environmental and social principles.

HOW WE MEASURE OUR PERFORMANCE

Landcom considers itself successful if the Corporation:

- has a key role in delivering 'metropolitan outcome' projects on behalf of Government,
- is financially self sustainable, with robust and specifically targeted financial ratios,
- is demonstrating industry leadership in financial, environmental and social sustainability,
- enjoys mutually beneficial relationships with our stakeholders,
- is an employer of choice.

2. Nature and scope of operations

Landcom operates within the Greater Sydney Metropolitan Area and in nearby regional areas (i.e. including the Hunter, the Illawarra and the Southern Highlands). While most of its projects are residential in nature, Landcom is also involved in a range of retail, commercial, industrial and mixed use developments.

Landcom has evolved substantially over the last decade and has moved on from its traditional role as a subdivider of land on the metropolitan fringe. Today, Landcom's value to Government lies in its ability to take on large and complex projects that may not otherwise be undertaken by the private sector. As such, Landcom fulfils an industry leadership role, delivering projects that combine commerciality with innovation in urban design, sustainability and affordability.

Landcom implements Government objectives for metropolitan growth by managing strategic and complex urban projects that have an impact on the direction of development at a metropolitan scale. Landcom frequently partners with the private sector, using a modest level of public funds to leverage a much larger private sector investment in the urban development of NSW. In the process, Landcom also produces returns to Government in an economically, environmentally and socially sustainable way.

The scale and complexity of Landcom's projects is increasing as the Corporation's focus continues to shift towards a higher proportion of urban renewal projects, particularly transit oriented developments. This is in line with the priorities of Government in terms of the future development of Sydney. Landcom is also involved in greenfield residential development, in circumstances where its participation either supports Sydney's growth sectors or provides the foundation for future development within those areas.

Landcom will continue to partner with the private sector along with State and Local Government, especially where these partnerships will accelerate project delivery. Landcom's increased focus on strategic and complex projects, combined with increased partnering with the private sector to accelerate project delivery may result in more variable dividend returns to Government in future.

3. Strategic directions

During 2009/2010, Landcom will play a very significant role assisting the Government in its response to the global recession. We will use our existing relationships with the development industry and across Government to deliver projects arising from the Commonwealth Government's various funding initiatives, including the Stimulus Package.

This will be a major challenge for Landcom and we intend to play our part in contributing to this nation building plan, while also continuing to deliver on our existing programme of work.

With this in mind, Landcom's business focus during 2009/2010 will be on using our projects as a catalyst for business confidence and economic investment. We will secure our financial sustainability into the future, despite the difficult economic conditions facing the development industry and we will continue to respond to the ongoing challenge of housing affordability.

4. Financial performance, results and targets

Landcom uses a number of targets to assess financial performance. In addition to the organisational targets listed below, each development project undergoes a rigorous feasibility assessment prior to approval.

The property market is expected to remain soft for at least the next eighteen months, and as a result the forecast EBIT result for the year is \$43.7M.

Table 1: Annual Financial Performance Targets (Landcom)

	2008-2009 Forecast #	2009-2010 SCI	2010-2011 Forecast	2011-2012 Forecast
	\$'000	\$'000	\$'000	\$'000
EBITDA (\$M)	38,155	44,310	68,201	70,047
EBIT (\$M)	37,497	43,744	67,635	69,504
Operating Profit Before Tax (\$M)	31,650	36,303	60,506	63,781
Operating Profit After Tax (\$M)	19,808	25,412	42,354	44,647
Target Dividend (\$M) *	42,912	41,320	46,815	47,276
Target Dividend Payout Ratio *	216.6%	162.6%	110.5%	105.9%
Return on Average Assets (%)	5.6%	6.8%	10.6%	11.0%
Return on Average Equity (%)	5.7%	7.7%	13.3%	14.2%

* includes payment of \$83M from retained earnings.

all profit items for 2008/2009 include a \$9.8M loss arising from the State Superannuation schemes

5. Non-financial performance targets

Landcom will continue to report formally on the Corporation's sustainability measures through its openly accountable system of Triple Bottom Line reporting. Triple Bottom Line reporting includes environmental, social and economic/financial performance.

Landcom's Triple Bottom Line programme and reporting regime is the vehicle by which the Corporation achieves internal and external awareness of sustainability issues, measures its performance in delivering sustainable development, sets targets and improves its performance.

Landcom's sustainability indicators and targets were developed in conjunction with a broad range of stakeholders during an extensive consultation program conducted over 2001 and 2002. These stakeholders continue to be engaged and consulted on a regular basis to provide feedback on Landcom's sustainability practice and reporting.

Performance against the established sustainability targets is reported annually and in recognition of the fact that a culture of sustainability has now been integrated within all aspects of Landcom's business, reporting is now within Landcom's Annual Report – www.landcom.nsw.gov.au.

6. Capital works program

In accordance with Australian Accounting Standards and NSW Treasury Guidelines, Landcom classifies expenditure on the acquisition and development of land as inventory, rather than capital expenditure.

Landcom's capital program comprises minor operational items, such as sales offices, leasehold improvements and IT equipment.

Table 2: Capital Expenditure Program – Overview and Financing

	2008-2009 Forecast \$'000	2009-2010 SCI \$'000	2010-2011 Forecast \$'000	2011-2012 Forecast \$'000
Program by Component of Capital Works				
· Growth Requirements	200	140	140	140
· Renewal of Assets	200	200	200	200
· Regulatory Compliance Requirements	0	0	0	0
Program by Source of Funds				
· Budget Funding	0	0	0	0
· Borrowings	0	0	0	0
· Other Sources (includes internal funds)	<u>400</u>	<u>340</u>	<u>340</u>	<u>340</u>
Total	<u>400</u>	<u>340</u>	<u>340</u>	<u>340</u>

7. Accounting policies

The financial forecasts included in this Statement of Corporate Intent have been prepared in accordance with the State Owned Corporation Act 1989 and Australian Accounting Standards and the requirements of the Public Finance and Audit Act 1983 and Public Finance and Audit Regulation 2005.

In accordance with best practice Landcom also has in place a comprehensive accounting policies manual which outlines its existing accounting practices. For full details, refer to Landcom's latest annual report which can be accessed via the website: www.landcom.nsw.gov.au.

8. Social programs and non-commercial activities

Other than the building of social capital within its development activities, Landcom does not contemplate any specific social programs on behalf of the NSW Government. The Corporation does, on occasion, fund research into social and other trends but only to assist it in the delivery of commercial projects in a socially sustainable way. No assets are utilised for non-commercial activities except in accordance with Landcom's donation policy.

9. Financial asset and liability management

Landcom's financial asset and liability management is conducted in accordance with the requirements of the Public Finance and Audit Act 1983, the Public Finance and Audit Regulation 2005, the NSW Treasury Management Policy, and complies with all relevant legislation and related requirements.

FINANCIAL RISK MANAGEMENT POLICIES

Financial market risk management, consistent with the framework set out in the Treasury Management Policy, is currently outsourced to the NSW Treasury Corporation (TCorp) and includes the following major areas of financial risk:

- liquidity and funding;
- interest rate risk management;
- funds management; and
- permitted Treasury instruments.

DEBT PORTFOLIO MANAGEMENT

Performance of Debt Portfolio Management is measured by comparing the benchmark with the terms of the accounting interest cost relative to budget and the generalised cost of funds of the debt portfolio. To minimise net debt and to maximise interest income while maintaining flexible access to funds, Landcom utilises a range of investment options, including TCorp Cash and TCorp CashPlus facilities.

LONG-TERM DEBT

Landcom's debt structure was reviewed by way of a Capital Structure Study, commissioned by NSW Treasury, to ascertain the appropriate capital structure for Landcom following corporatisation. This was subsequently reviewed during the 2006/2007 financial year to: long-term debt shall be \$275 million or no more than 45% of Capital, whichever applies first.

Landcom's debt portfolio is a tiered debt profile including long term and rolling short-term facilities. This did not change subsequent to the review of capital structure.

10. Risk and internal control overview and impacts

Landcom's risk management processes aim to minimise the consequences of events that could adversely affect its ability to achieve its objectives. This is achieved through structured processes based upon *Australian and New Zealand Risk Management Standard AS 4360 – Risk Management*.

Landcom has in place a comprehensive risk management framework which includes: regular Board review of the inherent, business and major operational risks to the organisation; a thorough internal audit program supported by reviews undertaken by the NSW Audit Office and independent certifiers; and regular reviews of the financial capacity of our partners. In addition, Landcom's insurable risks are covered by insurance with the Treasury Managed Fund.

Key risks identified include the following:

- *Market:*

Landcom's financial position and returns to Shareholders may be adversely affected by the tightening of credit policy and the uncertainties in Sydney's housing market.

- *Strategic Alliances:*

Project partners may be unable to meet their financial contract commitments or suffer legal/media criticism. Government Partners may be unable to meet agreed milestone targets and jeopardise development. Landcom and its partners may have a misalignment of objectives.

- *Economic/Financial Risks:*

Landcom's clients, partners and funds are subject to a range of economic and financial factors such as skills shortages, credit risk and interest rate risk.

11. Half yearly report

The *State Owned Corporation Act 1989* requires the Landcom Board to deliver to the Voting Shareholders, one month after the end of the first six months of the financial year, a report on the operations of the Corporation during that half-year.

This report will take the format of unaudited general purpose financial statements prepared, except where otherwise stated, on an accrual basis, at historic cost, and in accordance with applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group (UIG) Consensus Views and the requirements of the *Public Finance and Audit Act 1983* and associated regulations.

12. Other information

Landcom will provide to NSW Treasury, on behalf of its Shareholders, quarterly forecast financial statements, including forecast dividend distribution and tax equivalents.

13. Representation and commitment statement

The Board of Landcom confirms:

- The performance targets within the SCI are based on and supported by the Corporation's Business Plan and are inclusive of any 2008/2009 Mini Budget decisions.
- All known 'key risks' and 'major emerging contingent liabilities' which could materially impact the current and future results of the Corporation have been disclosed.
- Its asset maintenance policies and processes are adequate and appropriate to manage and control risks associated with physical assets.
- It will provide the Voting Shareholders with financial and other information on a monthly basis to assess the performance against commitments in this SCI and to assess the value of the Shareholders' investment in the business.
- Related party interests, which may represent a possible conflict of interest for Directors have been disclosed, in accordance with Treasury Management Policy.
- The Corporation's Chief Executive Officer has an employment contract and performance agreement. The employment contract is appraised annually with the next appraisal scheduled for August 2009.

More particularly, the Corporation is aware of the following policies and/or guidelines and will comply with these to the extent they apply to Landcom:

- Total Asset Management requirements of NSW State Infrastructure Strategy (SIS) Policy (TPP 08-2).
- NSW Government Procurement Policy (ITPP 04-1).
- Reporting and Monitoring Policy – Section 3.4 (Continuous Disclosure).
- NSW Treasury Circulars on accounting policy matters particularly the Guidelines for the development of the 2009/2010 Statement of Corporate Intent (Attachment 1).
- Guidelines for the assessment of Projects of State Significance.
- Financial Appraisal Guidelines in regard to capital expenditure projects proposed to commence in 2009/2010.
- Performance review: Internal Audit Capacity in NSW Public Sector (Final Report).
- Premier's Memorandum No 2005-14, Working Together: Public Sector OHS and Injury Management Strategy 2005-2008.
- Premier's Memorandum No 2007-12, NSW Public Sector Wages Policy 2007.
- Premier's Memorandum No. 2008-21, Filling and Advertising of Public Sector Vacancies.
- Premier's Memorandum No. 2009-04, Official Travel within Australia and Overseas.
- Ministerial Memorandum No. 2005-9, Major Infrastructure Coordination and Delivery.

