

Future Fund and Investment Policy and related policies

Tuesday, 17 October 2023
City Finance and Governance
Committee

Strategic Alignment - Enabling Priorities

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Public

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EXECUTIVE SUMMARY

In January 2022 Council resolved to adopt the Future Fund and Investment Policy utilising the proceeds from sale of assets to be set aside for future investments.

Prior to this resolution, the future Fund was established via the Treasury Policy. Workshops were held with Council Members in May, September and October 2021. The purpose was to assist with refining the intent of the Future Fund and what type of investments Council Members intended the Fund to be used for. Following the workshops, it was identified that the Future Fund needed further refinement via the development of its own policy to specifically address the nature of the fund, its purpose, how it will be created, maintained and accessed, and ensuring it was reported appropriately to the public.

In creating the Future Fund and Investment Policy, it was also recommended that an update of the Treasury Policy and the existing Acquisition & Disposal of Land & Infrastructure Assets Policy (to be replaced with the Acquisition & Disposal of Land & Assets Policy) occur concurrently. This was to ensure that all three policies correlated where required in terms of treatment of asset disposal, definitions of investment and performance, treasury management, and accounting treatment.

The purpose of this report is to provide Council with the policy with a view to understanding the current adopted stance with regards to the Future Fund and Investments.

RECOMMENDATION

The following recommendation will be presented to Council on 24 October 2023 for consideration

THAT THE CITY FINANCE AND GOVERNANCE COMMITTEE RECOMMENDS TO COUNCIL:

THAT COUNCIL:

1. Notes the Future Fund and Investment Policy, Attachment A to Item 7.2 on the Agenda for the meeting of the City Finance and Governance Committee held on 17 October 2023.
 2. Notes the Treasury Policy, Attachment B to Item 7.2 on the Agenda for the meeting of the City Finance and Governance Committee held on 17 October 2023.
 3. Notes the Acquisition & Disposal of Land & Assets Policy, Attachment C to Item 7.2 on the Agenda for the meeting of the City Finance and Governance Committee held on 17 October 2023.
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IMPLICATIONS AND FINANCIALS

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| City of Adelaide 2020-2024 Strategic Plan | Strategic Alignment – Enabling Priorities Effective Treasury Management, definition of Future Fund and Investments and clarity regarding the process of acquisition and disposal of assets will ensure that Council has the policy for sound financial management of treasury funds and investments that support financial sustainability into the future. |
| Policy | The previous Treasury and Acquisition & Disposal of Land & Infrastructure Assets Policies were updated to better correlate with the Future Fund and Investments Policy. |
| Consultation | Not as a result of this report. |
| Resource | Not as a result of this report. |
| Risk / Legal / Legislative | The Treasury Policy is a mandated policy to assist the management of liquidity risk. The Acquisition & Disposal of Land & Assets Policy is a legislative policy to address the risk of asset transactions on behalf of the community. The Future Fund and Investment Policy assists the management of the risk associated with financial management and investments to ensure appropriate evaluation and assessment of decisions. |
| Opportunities | The update of the three policies will ensure that Council is able to take advantage of investment opportunities when they arise and be accountable for how investments are funded for the benefit of the community. |
| 23/24 Budget Allocation | Not as a result of this report. |
| Proposed 24/25 Budget Allocation | Not as a result of this report. |
| Life of Project, Service, Initiative or (Expectancy of) Asset | Not as a result of this report. |
| 23/24 Budget Reconsideration (if applicable) | Not as a result of this report. |
| Ongoing Costs (eg maintenance cost) | Not as a result of this report. |
| Other Funding Sources | Not as a result of this report. |

DISCUSSION

Future Fund and Investment Policy

1. In November 2020, Council resolved to establish a Future Fund via an amendment to the Treasury Policy.
2. During April 2021 to May 2021, Council received advice from BRM Advisory via a workshop at a meeting of The Committee that the Council should investigate implementing an Investment Policy (Future Fund) that will seek to ensure that Council invests in new revenue streams in order to reduce the burden on ratepayers of the City.
3. Subsequent workshops were held with Council Members via Committee meetings in September 2021 and October 2021, to assist with refining the Fund purpose.
4. The (then) proposed policy was discussed at the Audit and Risk Committee meeting on 29 October 2021. A draft was circulated to the Committee for feedback following a CEO undertaking. Feedback from Council Members was incorporated into the policy.
5. Feedback from the meeting was to ensure a clear explanation of the logistics of the Future Fund in the balance sheet in reference to the section of the policy that refers to the nature of the Future Fund being a reserve. This will be addressed in Council's Long Term Financial Plan and related reporting.
6. In January 2022 Council resolved to adopt a standalone Future Fund and Investment Policy (per **Attachment A**) whereby the proceeds from sale of assets would be set aside and utilised for future investments.
7. The Future Fund and Investment Policy was adopted with the intention to provide clarity and purpose based on clear principles. These are summarised as follows:
 - 7.1. Funds within the Future Fund are derived from net proceeds from the sale of under-performing assets, defined through the Strategic Property Review.
 - 7.2. The purpose of the Future Fund is to quarantine these specific monies and ensure that they are held aside to either fully or partially contribute to future investments of Council.
 - 7.3. Investments are defined as income generating investments, which may include tangible or intangible assets, that will generate income in the future.
 - 7.4. Investments would be strategic in nature, supported by a business case and evaluation criteria established in guidelines associated with the policy.
 - 7.5. The Future Fund in its nature is a reserve by accounting definitions and will not be held in a separate bank account, but will be disclosed separately on Council's balance sheet. Physical cash will continue to be managed in accordance with Council's Treasury Policy.
8. Council administration has through a Motion on Notice to be presented to the Council meeting of 24 October 2023 been asked to provide advice on an alternative descriptor for the Future Fund. Administration's advice is that the term "Strategic Investment Reserve" would reflect the strategic nature and technical accounting treatment of the funds held as a Reserve reflected in the City of Adelaide's Balance Sheet.

Treasury Policy

9. As a result of the Future Fund and Investment Policy, in January 2022 Council resolved to adopt amendments to the Treasury Policy removing reference to the Future Fund Reserve to avoid confusion through duplication.
10. The Treasury Policy is provided in **Attachment B**.

Acquisition & Disposal of Land & Assets Policy

11. In accordance with Section 49 of the *Local Government Act 1999* (SA) Council is required to develop a policy for contracts and tenders when disposing of land or assets to ensure ethical and fair treatment for participants. Council's policy position should ensure accountability and transparency within disposal processes.
12. On 14 April 2020, Council received the Strategic Property Action Plan report incorporating a review of portfolio governance to optimise Council's property portfolio.
13. The governance review recommended appropriate management policies to manage the portfolio and guide property acquisitions and disposals.
14. In Summary, the Acquisition & Disposal of Land & Assets Policy was amended in January 2022 to include:

- 14.1. Application of the Strategic Property Action Plan assessment criteria to support decision making with respect to land and asset disposal. The selection criteria assess whether the land or asset offers a civic, strategic, city shaping, commercial or community purpose.
 - 14.2. Greater clarity with respect to the circumstances by which Council may consider a disposal other than through to the open market, including by direct negotiation. Circumstances for sale other than by the open market include, but are not limited to, an improved value proposition considering market value / selling costs, where there is limited likely purchasers, where land is restricted or of nominal value, to enable inclusion of adjacent land, to enable development by another level of government and sale to a lessee or residential tenant.
 - 14.3. The introduction of new criteria for acquisitions including alignment to Council's strategic drivers, city shaping potential, ability to unlock supply, creation of new commercial or community value and the potential to consolidate land and asset holdings.
 - 14.4. The reintroduction of the concept of 'land banking', noting that Council's former Land Banking Policy was revoked in 2015. Land banking is a process whereby Council progressively purchases land in strategic locations, consolidating land holdings over time until a viable development site is achieved. This land is then released to the market for sale, subject to clearly defined Council requirements with regard to development outcomes.
 - 14.5. As noted within the Acquisition & Disposal of Land & Assets Policy, acquisition of land should achieve equal or better than revenue neutrality whereby the original purchase price and holding costs are repaid by rental income and proceeds from the sale of the land.
 - 14.6. Components relating to 'Other Infrastructure Assets' have been removed, including the gifting of infrastructure assets such as bridges, plant and equipment. It is intended that this will now be addressed through the Asset Management Policy.
15. Council resolved to adopt the revised Acquisition & Disposal of Land & Assets Policy (at **Attachment C**) in January 2022.
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ATTACHMENTS

Attachment A – Future Fund and Investment Policy

Attachment B – Treasury Policy

Attachment C – Acquisition & Disposal of Land & Assets Policy

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