

# FUTURE FUND & INVESTMENT POLICY

27 January 2022

non-legislative

## PURPOSE

To provide clarity on the purpose of Council's Future Fund. In particular, the source of contributions to Council's Future Fund for reinvestment.

To provide clarity on the type of investments Council will undertake in order to drive development of revenue streams in addition to rates income. To provide guidance for evaluation of investments to be considered by Council and ensure all investments are consistently measured for their financial return to Council.

## STATEMENT

### Purpose of the Fund

The Future Fund is intended to quarantine monies received from the net proceeds from the sale of assets. It is to ensure that proceeds are not directed towards operating costs of the Council but are rather re-invested into income generating investments that drive revenues/returns to the Council in addition to rate income.

### Nature of the Fund

Reserves in a financial sense are an allocation of money set aside for specific future purposes in future periods.

Generally, these funds will not have a separate bank account but will be separately identified in the balance sheet as an asset.

Following the principles of this policy, sale proceeds will be used to reduce overall Council borrowings and interest expenses, which means that funds will be **re-borrowed** when expenditure from the reserve fund is required.

If Council is in a positive cash position and holds no borrowings the funds will be held in an interest-bearing account in accordance with the Treasury Policy.

In accordance with accounting standards, the fund is not permitted to disclose a negative balance.

### Contribution to the Fund

Council will regularly review the performance of its assets and will dispose of identified non-performing assets in accordance with the Acquisition and Disposal of Land and Assets Policy. Net proceeds (proceeds net of sale expenses incurred) from the sale of Council assets, (such as from property sales) will be transferred and quarantined to a reserve fund.

The City of Adelaide acknowledges the Kaurna people as the Traditional Owners of the Country where the city of Adelaide is situated, and pays its respect to Elders past, present and emerging.

### Accessing the Fund for Investment

The Future Fund will be used to fund investments of a strategic nature that will generate income for the Council into the future.

All requests to utilise funds from the reserve fund will be based on a business case. The business case must clearly demonstrate the financial return to Council. This return will be assessed using clear evaluation criteria as detailed in the assessment of performing investments section of this policy.

The funds from the Future Fund may be matched by external parties or by other funding mechanisms from Council itself provided the total investment expenditure meets the definition of investments. By default the Future Fund may partially fund an investment.

The use of the Future Fund does not override Council obligations under its Prudential Management Policy and all expenditure on investments should ensure these obligations are fulfilled.

### Investments

Investments can be both tangible and intangible assets which generate income for the future. Investments will not include those that are focused on capital appreciation only as they must return an income to Council. The income returns must be clearly defined and assessed using consistent financial evaluation criteria.

The Future Fund will **not** be used to:

- fund operational expenditure
- fund asset renewal expenditure
- fund community investment that Council would otherwise perform

Investment considerations can include but not limited to business operations, commercial assets and other physical assets that generate an income return to Council. Investments will not include those that are focused on capital appreciation only as they do not return an income to Council.

### Assessment of Performing Investments

In addition to the requirements of Part 4 of the Local Government Act (SA) 1999, Council will further utilise financial evaluation criteria that will include consideration of strategic alignment, risk and financial sensitivity and scenario analysis utilising tools such as NPV, BCR, IRR.

The evaluation will be performed by Finance and Strategic Property and Commercial and may seek external advice on a case by case basis.

Preferred solutions will be presented to Executive to provide approval or direction and Council approval sought where relevant.

Many factors need to be considered when deciding if an investment is performing. Performance will be determined by the appropriate discount rate used for financial evaluation. This will ensure that the rate of return deemed as performing is relevant to the particular type of investment.

Strategic Alignment:

- Delivery of one or more of the strategic plan priorities
- Support for development of the City

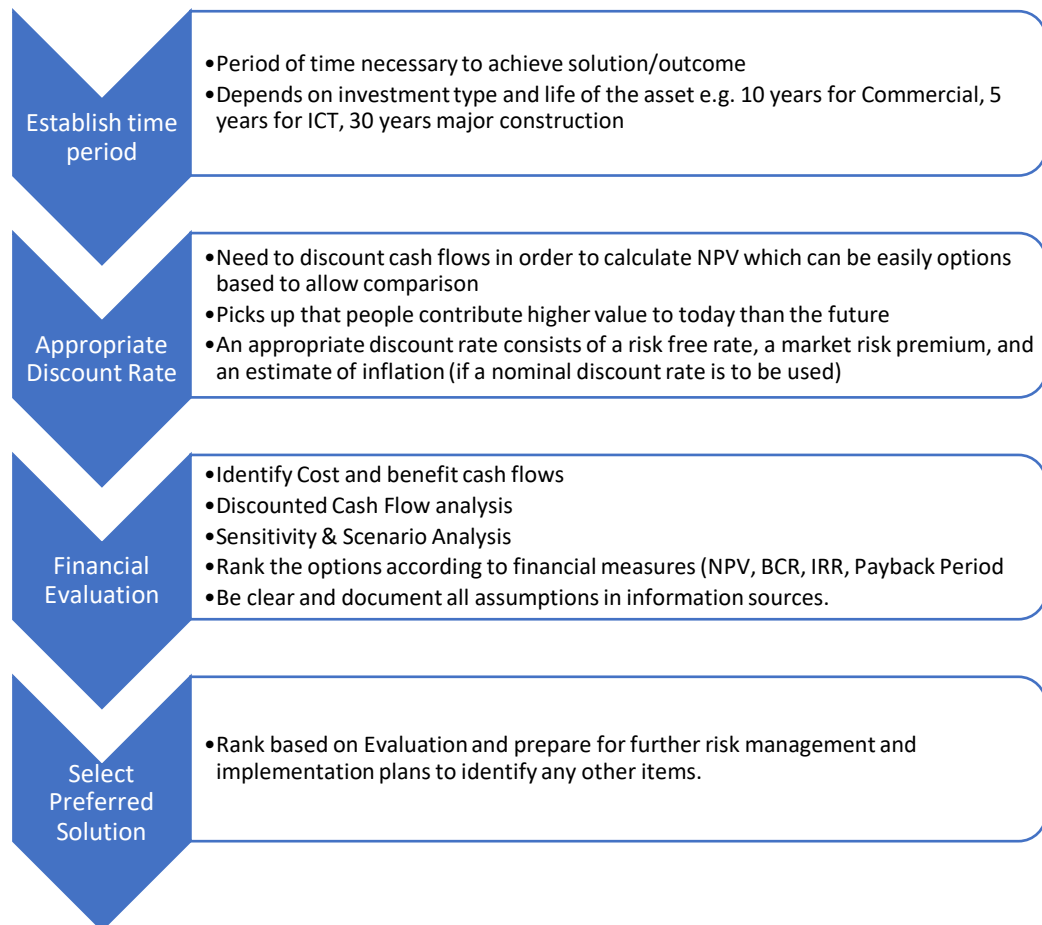
Timing:

- Time necessary for return to be generated or to achieve outcome
- Time required to hold the investment
- Period for which the investment is likely to be required

Risk assessment:

- Assessment against the Strategic Risk Register
- Stakeholder impact assessment
- Prudential review requirements

Financial Evaluation Criteria:



### Ongoing Maintenance of the Fund

Given the purpose of the Fund is to quarantine monies, it is not intended to disburse income returns to the Fund to maintain it. The only source of income will be from asset sales and the only disbursements from the Fund will be for income generating investments. In this respect the Future Fund will exist only to the extent that proceeds are continued to be received as assets are continually reviewed for performance criteria.

### Application of this document

Council will undertake to:-

- Ensure the net proceeds from the disposal of underperforming assets are quarantined in the Future Fund.
- Ensure that access to the fund is granted for investments that generate future incomes to Council
- Ensure the consistent evaluation of investments to inform decisions of Council
- Ensure that returns from investments are maintained at an approved threshold.

### Reporting Requirements

Due to the nature of the Future Fund, reporting with regards to the impact on borrowings will be provided in Council's Long Term Financial Plan on an annual basis. Quarterly a report on Future Fund will be included as part of the quarterly budget review to Council. With any performance reporting on investments acquired to be provided separately to Council as a part of commercial operations updates.

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## OTHER USEFUL DOCUMENTS

### Related documents

- Acquisition and Disposal of Land and Assets Policy
- Treasury Policy
- Prudential Management Policy

### Relevant legislation

- Local Government Act (SA) 1999

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## GLOSSARY

Throughout this document, the below terms have been used and are defined as:

**Key word:** explanation

**Investment:** asset or item acquired with the goal of generating income

**Under-Performing:** when the performance of an investment fails to meet financial criteria as described in the evaluation criteria

**NPV:** Net Present Value

**BCR:** Benefit Cost Ratio

**IRR:** Internal Rate of Return

**ADMINISTRATIVE** As part of Council's commitment to deliver the City of Adelaide Strategic Plan, services to the community and the provision of transparent information, all policy documents are reviewed as per legislative requirements or when there is no such provision a risk assessment approach is taken to guide the review timeframe.

This Policy document will be reviewed every **2** years unless legislative or operational change occurs beforehand. The next review is required in January 2024.

**Review history:**

Trim Reference	Authorising Body	Date/ Decision ID	Description of Edits
ACC2022/2799	Council	27/01/2022/ 21513	New Policy

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