

FUTURE FUND & INVESTMENT POLICY RESERVE POLICY

287 January March 20225 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 Reserve for reinvestment;
- 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 Reserve 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 additional revenues/returns to the Council ~~in addition to rate income~~.

Nature of the Fund

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

~~Generally, these funds will need~~ not have a separate bank account but will be separately and clearly identified in the balance sheet as an asset equity reserve.

~~Following As a policy principle the principles of this policy,~~ sale proceeds will be used to reduce overall Council borrowings and interest expenses, ~~which means that meaning~~ expenditure from the reserve fund funds may trigger necessary additional borrowing. will be re-borrowed when expenditure from the reserve fund is required.

If Council is in a positive cash position ~~and holds no borrowings with no debt~~ 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 under-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 for example~~ property sales) will be transferred and quarantined to the Future Fund Reserve 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 Reserve will be used to fund strategic investments ~~of a strategic nature that which~~ will generate income for the Council into the future.

All requests to utilise funds from the ~~reserve fund~~ Future Fund Reserve will ~~be based on~~ require a business case: ~~The business case must which~~ clearly demonstrates the expected financial return to Council. This financial 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 Reserve funds 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 Reserve may partially fund an investment.

~~The use~~ of the Future Fund Reserve does not override Council obligations under its Prudential Management Policy, ~~and a~~ All investment expenditure ~~on investments~~ should ~~ensure these fulfill 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 are not limited to business operations, commercial assets and other physical assets that generate an income return to Council. Investments will not include those focused on capital appreciation only, as investments must return an income 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 (SA), Council will ~~further utilise~~ use financial evaluation criteria ~~that will which~~ include consideration of strategic alignment, risk and financial sensitivity and scenario analysis, utilising tools such as NPV Net Present Value (NPV), Benefit-Cost Ratio (BCR), and Internal Rate of Return ~~(BCR, IRR).~~

The evaluation will be performed by Finance ~~and~~ Procurement, and Strategic Property and Commercial Programs, ~~and who~~ may seek external advice on a ~~case by case~~ case-by-case basis.

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

~~Many~~ Several 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. In addition an investment must consider the following criteria:

Strategic Alignment:

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

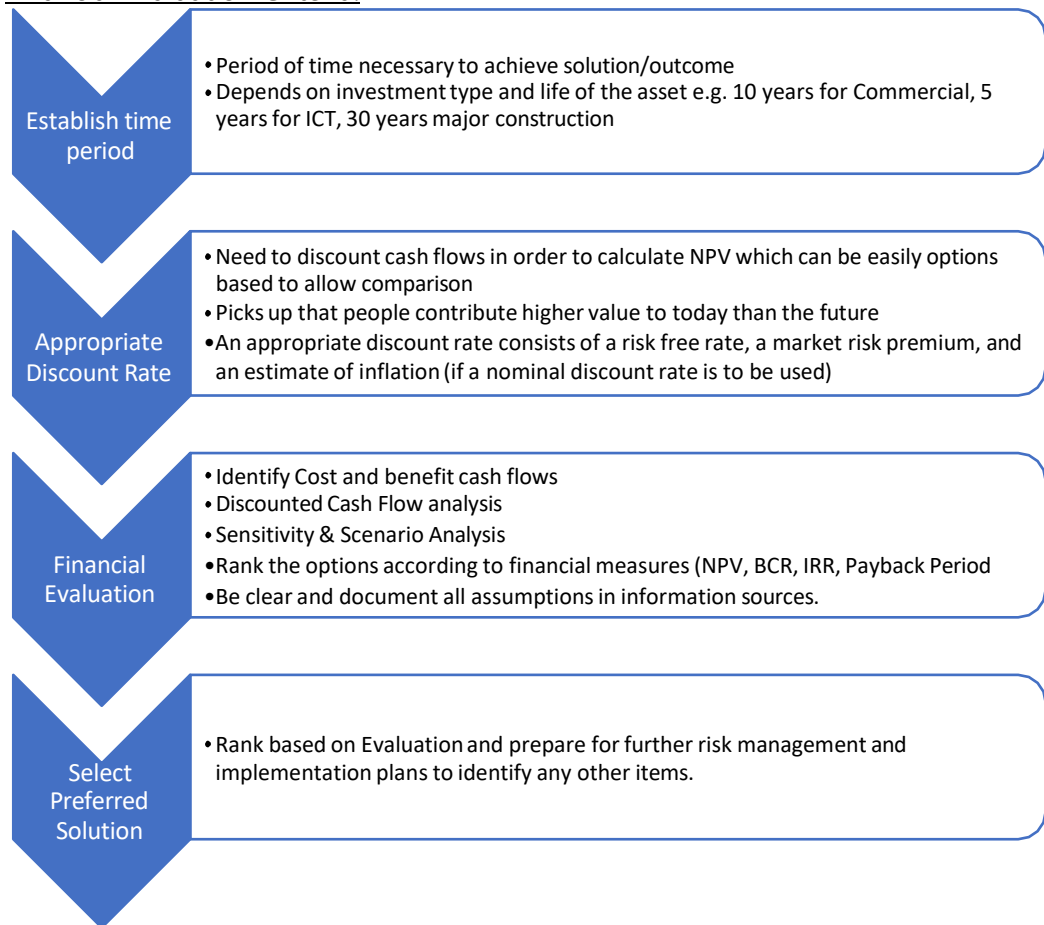
Timing:

- 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 expenditure on income generating investments. ~~In this respect the~~The Future Fund will exist only to the extent that proceeds ~~are continued~~ to be received from relevant asset sales (sale of under-performing assets), ~~as assets are continually reviewed for performance criteria.~~

Application of this document

Reporting Requirements

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

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 (SA)

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

BCR: Benefit Cost Ratio (the relationship between the relative costs and benefits of a proposed project/ initiative).

-IRR: Internal Rate of Return (a measure of annual income from an investment expressed as a proportion of the original investment).

NPV: Net Present Value (difference between the present value of cash inflows and the present value of cash outflows over a period of time).

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 **42** years inline with the term of council unless legislative or operational change occurs beforehand. The next review is required in ~~January~~ March 2024.

Review history:

Trim Reference	Authorising Body	Date/ Decision ID	Description of Edits
<u>ACC2025/TBD??</u> <u>?</u>	<u>Council</u>	<u>25 March 2025???</u>	<u>The review recommended no substantive amendments, but has clarified and simplified wording of the current policy, and proposes changing the policy name to Future Fund Reserve Policy to better reflect its scope.</u> <u>Minor Updates</u>
ACC2022/2799	Council	27/01/2022/ 21513	New Policy

Contact:

For further information contact the Finance ~~and~~ Procurement Program

City of Adelaide
 25 Pirie Street, Adelaide, SA
 GPO Box 2252 ADELAIDE SA 5001
 +61 8 8203 7203
citycustomer@cityofadelaide.com.au