

# FUTURE FUND RESERVE POLICY

March 2025

non-legislative

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## 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;
- guidance for evaluation of investments to be considered by Council and ensure all investments are consistently measured for their financial return to Council.

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## 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.

### **Nature of the Fund**

Financial reserves are an allocation of money set aside for specific future purposes.

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

As a policy principle, sale proceeds will be used to reduce overall Council borrowings and interest expenses, meaning expenditure from the reserve fund may trigger necessary additional borrowing.

If Council is in a positive cash position 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 under-performing assets in accordance with the Acquisition and Disposal of Land and Assets Policy. Net proceeds from the sale of Council assets, (for example property sales) will be transferred and quarantined to the Future Fund Reserve.

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 which will generate income for the Council into the future.

All requests to utilise funds from the Future Fund Reserve will require a business case which clearly demonstrates the expected financial return to Council. This financial return will be assessed using clear evaluation criteria (detailed in the assessment of performing investments section of this policy).

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

Use of the Future Fund Reserve does not override Council obligations under its Prudential Management Policy. All investment expenditure should fulfill these obligations.

### Investments

Investments can be both tangible and intangible assets which generate income for the future. 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.

### Assessment of Performing Investments

In addition to the requirements of Part 4 of the *Local Government Act 1999 (SA)*, Council will use financial evaluation criteria which include consideration of strategic alignment, risk and financial sensitivity and scenario analysis, utilising tools such as Net Present Value (NPV), Benefit-Cost Ratio (BCR), and Internal Rate of Return (IRR).

The evaluation will be performed by Finance and Procurement, and Strategic Property and Commercial Programs, who 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.

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

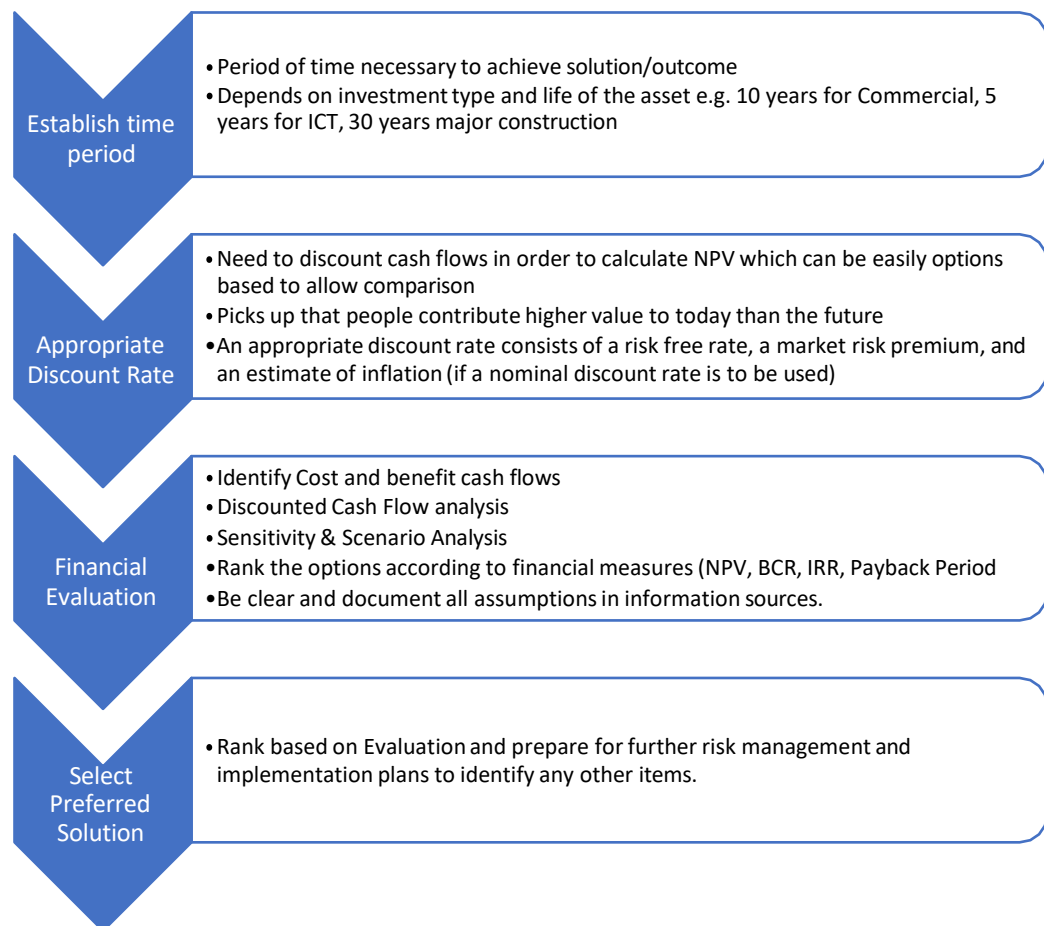
Timing:

- 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. The Future Fund will exist only to the extent that proceeds continue to be received from relevant asset sales (sale of under-performing assets).

### Application of this document

Council will undertake to ensure:-

- Net proceeds from the disposal of underperforming assets are quarantined in the Future Fund.
- Access to the fund is granted for investments that generate future incomes to Council
- Consistent evaluation of investments to inform decisions of Council
- Returns from investments are maintained at an approved threshold.

### Reporting Requirements

Due to the nature of the Future Fund, reporting on borrowings impacts will be provided in Council's Long Term Financial Plan annually. A Quarterly Future Fund report will be included with the quarterly budget review to Council. Any performance reporting on investments acquired will 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 1999 (SA)*

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## GLOSSARY

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

**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 (difference between the present value of cash inflows and the present value of cash outflows over a period of time).

**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).

**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 **4** years in line with the term of council unless legislative or operational change occurs beforehand. The next review is required in **2029**.

**Review history:**

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

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