

Future Fund Policy

February 2023

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City of
Newcastle

Table of Contents

1	Purpose	1
2	Scope	1
3	Principles	1
4	Governance Committee	2
5	Investment Fund Adviser	3
6	Probity	3
7	CN Officers	3
8	Acquisition, development and disposal of assets	4
9	Reporting	4
10	Review	4
11	Prudent Person Standard.....	5
12	Asset Selection	5
13	Responsible Investments – environmental, social and governance considerations	5
14	Risk Management	5
	Annexure A - Definitions	6
	Annexure B - Policy Authorisations	7
	Document Control.....	8

INTRODUCTION

1 Purpose

- 1.1 The purpose of this Policy is to:
 - 1.1.1 Establish a City of Newcastle (CN) Future Fund (the Future Fund).
 - 1.1.2 Establish clear governance, oversight and accountability for the Future Fund.
 - 1.1.3 Ensure that all Future Fund related activities occur in accordance with legislative requirements.
- 1.2 The objective of the Future Fund is to diversify CN's investments so as to maintain long-term purchasing power of CN's reserves and enable delivery of the adopted Community Strategic Plan, by;
 - 1.2.1 investing in a diversified portfolio of assets including but not limited to the diversification of assets by character and geography within New South Wales.
 - 1.2.2 achieving an optimum financial return within CNs risk tolerance.
 - 1.2.3 generating a commercial dividend to CN's General Fund.
 - 1.2.4 growing the Future Fund.

2 Scope

- 2.1 This Policy applies to all Elected Council, staff, committee members and advisers who undertake any aspect of the Future Fund.

Delegation of authority

- 2.2 Section 377(1)(h) of the *Local Government Act 1993* requires a specific resolution of Council to acquire and divest land or other property.
- 2.3 The CEO and / or their delegate may make preliminary enquiries and negotiations regarding a possible purchase price, and, any contract must state that the proposal is conditional upon a resolution of Council.
- 2.4 CN Officers will undertake day-to-day activities to support the operation, administration and governance of the Fund.

Legislation

- 2.5 This policy operates under Section 186 of the *Local Government Act 1993*, which sets out that a council may acquire land (including an interest in land) or other property for the purpose of exercising any of its functions.
- 2.6 The financial investments permitted by Section 625 of the *Local Government Act 1993* does not apply to the acquisition of property for the purposes of this policy.
- 2.7 This policy only applies to the investment of unrestricted cash or cash held as internal reserve of council. The policy prohibits the use of funds restricted for an external purpose.

3 Principles

- 3.1 City of Newcastle (CN) commits itself to the following:
 - 3.1.1 **Accountability and transparency** – The policy provides a framework for the transparent and merit-based provision of support and a system of accountability for the recipient.
 - 3.1.2 **Honesty and fairness** – Investments and business relationships will be conducted with honesty, fairness and probity at all levels. Confidentiality of information will be maintained.

- 3.1.3 **Value for money** – The Future Fund portfolio will be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public monies, officers are to manage CN's Future Fund portfolio to safeguard the portfolio in accordance with the spirit of this Policy, and not for speculative purposes.
- 3.1.4 **Consistency** – consistent processes must be used in all stages of managing CN's investments.
- 3.1.5 **Probity** – Investment decisions will be open, fair, consistent and transparent and comply with the Local Government Act 1993, the Local Government (General) Regulation 2005, CN's Code of Conduct and ICAC's Managing Conflicts of Interest in the Public Sector.
- 3.1.6 **Sustainability** – To sustainably meet community needs and expectations for all assets and asset infrastructure services.
- 3.1.7 **Alignment with Council strategies** – The policy aligns with Achieving Together priorities and supports achievement of the Newcastle 2040 Community Strategic Plan.

Part B Governance of the Fund

4 Governance Committee

- 4.1 There is to be a Future Fund Governance Committee (the **Governance Committee**)
- 4.2 The Governance Committee is an advisory committee only. The Committee's resolutions, which record its decisions, are recommendations of the Committee.
- 4.3 The Governance Committee shall be constituted with up to seven members, including:
 - 4.3.1 The Lord Mayor and two Councillors appointed by the Elected Council, at least one of whom must also be a member of the Asset Advisory Committee
 - 4.3.2 The Chief Executive Officer (CEO) and the Chief Financial Officer
 - 4.3.3 Two independent members with appropriate professional capabilities
 - 4.3.4 An independent Chairperson
- 4.4 Independent committee members and the Chair must have relevant qualifications and substantial experience in any of the following professions:
 - 4.4.1 Strategic or development planning;
 - 4.4.2 Accounting or economics;
 - 4.4.3 Financial planning;
 - 4.4.4 Investment banking or credit analysis;
 - 4.4.5 Legal and compliance;
 - 4.4.6 Commercial property and development;
 - 4.4.7 Risk Management; or
 - 4.4.8 Asset Management.
- 4.5 In addition, the Chairperson must have demonstrated experience and professional capabilities necessary to chair the Governance Committee.
- 4.6 The Chairperson and independent members will be remunerated.
- 4.7 Council Members remain Members of the Committee until:
 - 4.7.1 The conclusion of their term of office;

- 4.7.2 They resign; or
- 4.7.3 Their membership is otherwise terminated.
- 4.8 A Committee member must agree that it is a condition of the appointment that they are bound by Council's Code of Conduct.
- 4.9 The Governance Committee is responsible for:
 - 4.9.1 Endorsing the investment strategy for the Fund.
 - 4.9.2 Monitoring and overseeing of the investment activities conducted within the Fund.
 - 4.9.3 Recommending investment decisions as and when required in accordance with prevailing legislative and CN governance requirements.
 - 4.9.4 Approving the appointment, renewal, termination of the Independent Fund advisor.
 - 4.9.5 Reviewing investment reports.
 - 4.9.6 Being accountable for risk and return outcomes for The Fund.

5 Investment Fund Adviser

- 5.1 An Independent Future Fund Adviser(s) (the Fund Adviser) will be appointed by CN to advise the Committee. The Fund Adviser will have a detailed understanding of investment requirements and be suitably qualified by industry standards.
- 5.2 The Fund Adviser will:
 - 5.2.1 Provide advice on strategic direction of The Fund
 - 5.2.2 Provide advice on the identification, recommendation and analysis of investment opportunities
 - 5.2.3 Provide consulting on overall risk management relating to investments including operational risk
 - 5.2.4 Carry out research on direct investments as well as provide regular information pertaining to market and industry factors
 - 5.2.5 Monitor market events and impact on The Fund on a proactive basis
- 5.3 The Fund Advisor is required to provide written confirmation that they do not have any actual or potential conflicts of interest in relation to the investments that they are recommending or reviewing, including that they are not receiving any commissions or other benefits in relation to the proposals being recommended or reviewed. This confirmation is required at the time each proposal is put forward for any purchase or sale transaction.

6 Probity

- 6.1 An Independent Probity Adviser will be appointed to advise the Governance Committee and report on compliance with this policy.
- 6.2 The Probity Adviser will attend all Governance Committee meetings for the first 12 months of operations and thereafter, as required.
- 6.3 The Probity Adviser will review and advise on all property transactions.

7 CN Officers

- 7.1 CN Officers will undertake day-to-day activities to support the operation, administration and governance of the Future Fund, including:
 - 7.1.1 Execute and or facilitate the acquisition, disposal, or management of assets in accordance with the terms set out within the Policy, CN's delegations register, and strategy.

- 7.1.2 Ensure the Future Fund properties are managed and maintained in an appropriate manner.
- 7.1.3 Ensure alignment between Council's financial budgets and The Fund.
- 7.1.4 Develop the investment strategy for The Fund.

8 Acquisition, development and disposal of assets

- 8.1 The Governance Committee shall review, not less than quarterly, the budget and assets in the Future Fund to ensure consistency with conditions and purposes within this Policy and alignment with the investment strategy.
- 8.2 The Governance Committee may, after considering the matters set out in this policy, make such recommendation as to the acquisition, development, demolition or disposal of assets (whether in whole or in part).
- 8.3 Nothing in this Policy prevents the Governance Committee from recommending the use of loans to finance the activities of the Fund.
- 8.4 Council may choose to adopt, vary or reject the Committee's recommendation.
- 8.5 The CEO or their delegate is responsible for the conduct of all negotiations and shall:
 - 8.5.1 Obtain valuations from a registered valuer
 - 8.5.2 Seek professional advice as considered necessary
 - 8.5.3 Have regard to Independent Commission Against Corruption publications and
 - 8.5.4 Seek Council resolution to confirm all acquisition and divestment contracts.

9 Reporting

- 9.1 The financial status and performance of the Future Fund will be reported to Council and the Asset Advisory Committee on a quarterly basis.
- 9.2 Each year the Governance Committee will provide an annual report to Council, the Asset Advisory Committee and the Audit and Risk Committee which sets out the performance of the Future Fund against its purposes over the past year.
- 9.3 Annual reporting shall include, but is not limited to
 - 9.3.1 Operational performance;
 - 9.3.2 Portfolio distribution by asset type;
 - 9.3.3 Capital growth by asset type; and
 - 9.3.4 Any other requested or relevant information.

10 Review

- 10.1 This Policy is to be reviewed after the first twelve months and not less than every four years thereafter.

Part C Investment Criteria and Risk Determination

11 Prudent Person Standard

- 11.1 The investment portfolio will be managed with the care, diligence, and skill that a prudent person would exercise. As trustees of public monies, CN officers are to manage CN's investment portfolio to safeguard the portfolio in accordance with the spirit of this Policy, and not for speculative purposes.

12 Asset Selection

- 12.1 The Future Fund is only to hold the following types of assets:
- 12.1.1 land;
 - 12.1.2 improvements to land;
 - 12.1.3 operations performed by CN with a commercial rate of return;
 - 12.1.4 investments made in accordance with the prevailing Ministerial Investment Order and the Local Government Act, 1993 (the Act).
- 12.2 The Future Fund has a preference for local investment options and will include locality as an evaluation criteria for assessing investment options.

13 Responsible Investments – environmental, social and governance considerations

- 13.1 As long term investors, CN believes that the long-term prosperity of the economy and the wellbeing of our community depends on a healthy environment, social cohesion and good governance of our organisation and the assets in which we invest.
- 13.2 CN will consider Environmental, Social and Governance (ESG) impacts of investments to mitigate risk to The Fund's assets and portfolio.
- 13.3 CN's preference is to enter into investments supporting ESG where;
- 13.3.1 The investment is compliant with the Policy objectives and parameters; and
 - 13.3.2 The rate of return is at least equal to comparable investments on offer to Council at the time of investment.
- 13.4 The Fund will avoid investment in activities of a nature consistent with environmentally and socially harmful activities.

14 Risk Management

- 14.1 In determining the level of risk CN will consider the following as a minimum:
- 14.1.1 Lease default risk
 - 14.1.2 Macroeconomic risk
 - 14.1.3 Liquidity risk
 - 14.1.4 Regulatory risk
 - 14.1.5 Location risk
 - 14.1.6 Diversification risk
- 14.2 The risk to CN will be mitigated through:
- 14.2.1 Contracting of an appropriately qualified Fund Adviser
 - 14.2.2 The Governance Committee systematically assessing and reviewing the performance of the Future Fund on a quarterly basis and using the information derived to determine future strategic decisions.

ANNEXURE A - DEFINITIONS

Asset Advisory Committee means the standing committee established by Council to provide strategic advice and guidance on the development and implementation of Council's property asset direction for the City.

Audit and Risk Committee means the committee established by Council to provide independent assurance and assistance to Council on risk management, control, governance and external accountability responsibilities.

CEO means Chief Executive Officer of the City of Newcastle and includes their delegate or authorised representative.

References to the Chief Executive Officer are references to the General Manager appointed under the *Local Government Act 1993* (NSW).

CFO means the Executive Director appointed by the CEO to be the Chief Financial Officer of the City of Newcastle.

City of Newcastle (CN) means Newcastle City Council.

Council means the elected Council.

Future Fund means the Future Fund created under the Council adopted Future Fund Policy.

Governance Committee means the Future Fund Governance Committee constituted by this Policy.

Independent Future Fund Adviser means the adviser(s) appointed by CN to advise the Governance Committee in relation to the Future Fund.

Independent Probity Adviser means the adviser appointed by CN to advise the Governance Committee and report on compliance with this Policy.

Unless stated otherwise, a reference to a section or clause is a reference to a section or clause of this Policy.

ANNEXURE B - POLICY AUTHORISATIONS

In accordance with section 378 of the Local Government Act 1993, the Chief Executive Officer delegates the following functions to the positions listed:

Description of authorisation	Position Number and Title
Nil	

DOCUMENT CONTROL

Policy title	Future Fund Policy
Policy owner	Executive Director Corporate Services
Policy expert/writer	Executive Manager Finance, Property & Performance
Associated Guideline or Procedure Title	Insert 'Nil' if not applicable
Guideline or Procedure owner	N/A
Prepared by	Finance, Property & Performance
Approved by	Council
Date approved	28/02/2023
Commencement Date	28/02/2023
Next review date	30/09/2025
Termination date	30/09/2026
Version #	1
Category	Administration
Details of previous versions	Nil
Keywords	Investment, Commercial, Property
Relevant Newcastle 2040 Theme/s	Achieving Together
Relevant strategy	Community Strategic Plan
Relevant legislation/codes (reference specific sections)	<i>Local Government Act 1993</i> (NSW) (s186)
Other related documents	Nil
Related forms	Nil
Required on website	Yes
Authorisations	Nil