

## 2.8 FINANCIAL RESERVES POLICY

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<b>Date Adopted</b>	21 <sup>st</sup> May 2013	<b>Resolution Number</b>	21/05/2013/020
<b>Review Timeframe</b>	4 years		
<b>Last Review Date</b>	10/2/16	<b>Next Scheduled Review Date</b>	February 2020
<b>Policy Responsibility</b>	Finance Manager		

### Document History

Version	Date Amended	Details Comments e.g. Resolution Number
2.8.001	10/2/16	Reviewed policy, no amendments made

### POLICY SUMMARY

This Policy outlines the criteria for the classification of Reserves and establishes the purpose of individual Reserves.

### OBJECTIVES

To promote the sustainable and responsible financial management of Coomalie Community Government Council through the consistent application of Reserve classifications and identification of individual Reserve funding purposes.

### BACKGROUND

Council has a small amount of cash backed reserves. Cash backed reserves are funds set aside for future purposes. For example, the replacement of the Council's assets, whether they are plant and equipment or infrastructure. Over the term of Council's Long Term Financial Plan, cash backed reserves are used to help smooth out the funding required for major capital projects. This is in line with Council's definition of a sustainable financial strategy:

Council defines a sustainable financial strategy as one which allows for the adequate provision for its programs (including capital expenditure) and services into the future with the intention that there is a predictable trend in the overall rate burden. The aim of Council's financial strategy is to allow for an equitable distribution of the costs of establishing and maintaining council assets and services between current and future ratepayers.

### POLICY STATEMENT

#### Classification of Reserves

##### Externally Restricted

Reserves that are classified as externally restricted must meet the following criteria: There is a legal requirement that governs the use of the funds; or

If the funds are not utilised for the purpose for which they were received, there is a requirement or obligation to return the funding to its contributor.

Council's Reserves that currently meet this criteria are as follows:

<b>Reserve Name</b>	<b>Externally Restricted Criteria</b>
Developer Contributions	This is a general reserve to hold developer contributions received for roads, pathways and stormwater that must be used in accordance with the purpose for which they were received.
Unspent Grants & Contributions	This reserve holds the balance of unspent grants and contributions received that are subject to specific expenditure requirements. The funds are held in this reserve until expended in accordance with the funding conditions. The grants and contributions held in this reserve are actual funds received and not accruals or debtors raised in lieu of funds to be received at year end.

#### Internally Restricted

Reserves that are classified as internally restricted usually have the following characteristics:

There is no legal requirement that governs the use of the funds;

The reserve has been established for some internal purpose, however, if that purpose does not eventuate or Council changes its priorities the funding can be diverted to something else.

Council's Reserves that currently meet these criteria are as follows:

<b>Reserve Name</b>	<b>Purpose</b>
Asset Replacement & Refurbishment	Reserve holds savings from capital works program and any available funding that can be directed towards capital works generally.
Carry Forward Works	Normally only utilised at the end of each financial year this reserve holds both operational and capital funding that is recognised as 'carried forward' to the next financial year from the current budget.
Plant & Vehicle Replacement	The plant replacement reserve holds funds to meet the cost of replacement of plant. The balance is based on the anticipated requirement amount identified in Council's plant replacement program. See also the Plant and Equipment Policy in relation to this reserve.
Waste Management	Reserve holds funds for the future development of the Batchelor and Adelaide River Waste Disposal sites to accommodate expected future landfill requirements and to provide for post-closure rehabilitation costs

	of the waste site.
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### General Reserves

These reserves are required by the accounting standards and are not cash backed unlike externally and internally restricted reserves.

<b>Reserve Name</b>	<b>Purpose</b>
Asset Revaluation Reserve	This reserve reflects the increments and decrements of Council's fixed assets as a result of revaluations in accordance with Australian Accounting Standards.

### **Establishment of Reserves**

A reserve will be established for any value if there is a legal requirement to do so or a requirement under the accounting standards.

Generally, internally restricted reserves will not be established for future expenditure for amounts less than \$10,000. Where possible, values less than this should be accommodated within the annual budget.

Establishment of new reserves must be authorised by Council resolution.

### **Transfer of Funds in and out of Reserves**

Subject to a review of the adequacy of reserves, transfers should be limited to the funding of those projects for which the reserve was specifically created for.

For financial management purposes all reserve transfers in and out of each reserve must be detailed separately with any specific constrained funds for projects identified within each reserve.

All transfers must be authorised by Council resolution.

### **Assessing Adequacy of Reserve Funds**

At least on an annual basis during the preparation of the budget and Long Term Financial Plan, Council will review its forward projections for reserves, borrowings and funding for major projects. All decisions to undertake reserve transfers will take into account projected borrowings and an analysis of the 'best possible use' of available funds.

### **Minimum Balance of Reserves**

Council has endorsed a minimum balance for the following reserves: \$5000.00

### Other Reserves

Other than externally restricted reserves, all reserves will be subject to a review of adequacy at least on an annual basis. This review will take into consideration the requirements for reserve funding assumed in Council's Long Term Financial Plan.

This is particularly relevant for the Plant & Vehicle Replacement Reserve, as these reserves are used to fund significant asset replacement programs in the Long Term Financial Plan.

### **Interest on Reserve Funds**

At the end of each financial year, interest will be applied to the following externally restricted reserves:

- Developer Contribution Reserves
- Unspent Grants & Contributions where the grant agreement specifically states interest must be applied to unspent funds.

Subject to the requirement for the reserve to reach an approved level, interest will also be applied to the following internally restricted reserves:

- Waste Management Reserve

The interest rate applicable will be the average return on investments for the relevant financial year.

Interest may be applied to the average reserve balance or in the case of grants, applied from when funding was received to 30 June.

### **Internal Borrowings from Reserves**

Internal borrowings may only occur from internally restricted reserves and not from externally restricted reserves. In determining whether internal borrowing should occur the criteria in Council's Borrowing Policy should be considered including intended purpose of the funds and term of the loan.

Internal borrowings are subject to the same requirements as external borrowings including:

- Disclosure in Shire Plan.
- Market interest investment rate must be used to calculate loan repayments that must then be factored into current and future budgets and forecasts including the Long Term Financial Plan.
- May only be undertaken by resolution of Council.

### **Reporting on Reserves**

Part 7 (15) (2) (c) of the Local Government (Accounting) Regulations requires the Council to disclose all specific purpose reserves in its annual financial statement.

In addition to this reserves are reported on as follows:

- A detailed budgeted Statement of Reserves is included in the Shire Plan and Long Term Financial Plan.
- A report listing individual reserves showing actual reserve performance against budget is reported to the quarterly budget review meetings.
- The total balance of reserves is reported in the Monthly Financial Summary report provided to Council.

### **Legislation, terminology and references**

Part 7 (15) (2) (c) of the Local Government (Accounting) Regulations requires the Council to disclose all specific purpose reserves in its annual financial statement.

## **Implementation and delegation**

### **Implementation**

This Policy will be implemented by the Finance Manager.

### **Delegation Authority**

All transfers from reserves including any internal borrowing must be approved by Council by adoption of the budget and budget variations.

### **Evaluation and review**

This Policy will be reviewed once during the term of the Council or as required.