

FINANCIAL RESERVE FUNDS POLICY

Previous policy number: 1.2.5

Policy Statement

To guide decision making on the nature and type of Financial Reserve Funds that need to be created to support sound financial management and good governance in accordance with the *Local Government Act 1995*.

Policy Details

Objective

To ensure that the Town establishes and utilises Financial Reserve Funds:

- As a strategic approach to ensure that cash is available in a timely and responsible way to fund important initiatives,
- To better manage the peaks and troughs which occur in meeting the funding of major expenditures; and
- To isolate funds contributed for specific purposes.

Policy Principles

All financial reserves with the exception of the Asset Revaluation Reserve are to be cash backed with the pooled funds included in the Council's investment portfolio.

Policy Guidance

Classification of Financial Reserves

Asset Revaluation Reserves

This reserve is established under the requirements of the Australian Accounting Standards. It reflects the increments or decrements of fixed asset values as result of an asset revaluation.

Externally Restricted Reserves

The following criteria apply to externally restricted reserves:

- The reserve is subject to legal requirements that govern the use of the funds; or
- The reserve includes funds that have not been utilised for the purpose for which they were received, and an obligation or requirement to return funds to its contributor exist.

The following Council reserves are externally restricted reserves:

Externally Restricted Reserves	
General Reserves	
Unexpended Grants and Contributions Reserve*	This reserve holds the balance of unexpended grants and contributions received from external contributors. The funds are held in this reserve until expensed in line with

	the funding conditions. External restrictions apply in line with the individual funding agreements.
Developer Contribution Reserve*	This reserve holds contributions received by Council by developers in line with the Town's Council Developer Contribution Plan. Restrictions apply as set out in both the Plan and under provisions outlined in the Planning Act.
Specific Reserves	
Mt Lyell Containment Cell Reserve	This reserve holds funds to maintain and monitor Mt Lyell Park above the containment cell.

* Specific Reserves to be established when funds are received for a specific purpose.

Internally Restricted Reserves

The following criteria apply to internally restricted reserves:

- The reserve is not subject to legal requirements governing the use of the funds; or
- The reserve has been established for a specific internal purpose, however, if that purpose does not eventuate or Council changes its priorities the funding can be diverted to other purposes

The Town distinguishes between three categories of internally restricted reserves:

- Asset Related Reserves that are related to fixed assets and are established for the funding of renewal, replacement or upgrading of existing assets and/or the establishment of new assets in line with Council's Asset Management Plan, Corporate Business Plan, Long Term Financial Plan and strategic goals.
- Contingency Reserves for unanticipated expenditure.
- Strategic reserves that are not related to fixed assets and are established by Council for a specific or general purpose in line with Corporate Business Plan, Long Term Financial Plan and strategic goals.

The following Council reserves are internally restricted reserves:

Internally Restricted Reserves	
Asset Reserves	
Transport Reserve	The reserve holds funding for renewal or replacement of existing transport assets in line with Council's Asset Management Plan including but not limited to drainage, roads, kerbing, paths, crossovers, sewerage infill and street furniture.
Buildings Reserve	The reserve holds funding for renewal or replacement of existing buildings in line with Council's Asset Management Plan.
Public Open Space Reserve	The reserve holds funding for renewal or replacement of existing public open space assets in line with Council's Asset Management Plan including but not limited to playing fields, natural bushland, playground equipment, sporting courts/parks and public art.
Library Infrastructure Reserve	The reserve holds funding for renewal or replacement of existing Library infrastructure assets in line with

	Library Management Agreement and subsequent decisions of the Library Management Committee.
Plant Reserve	The reserve holds funding for renewal, replacement or upgrading of existing assets and/or the establishment of new assets in line with Council's Asset Management Plan for Plant and Equipment.
Information Technology Reserve	The reserve holds funding for renewal, replacement or upgrading of existing information technology assets and/or the establishment of new information technology assets in line with Council's Information Systems Strategic Plan.
Rubbish Reserve	The reserve holds funding for new or replacement rubbish facilities.

Internally Restricted Reserves	
Contingency Reserves	
Insurance Reserve	The reserve holds funding to cover insurance claims that fall outside of the Council's insurance coverage.
Legal Reserve	The reserve holds funding to cover unanticipated legal expenses in excess of the budget for that financial year.
Strategic Reserves	
Underground Power Reserve	This reserve will fund strategic initiatives for the future development of the Town in line with the Corporate Business Plan and the Long Term Financial Plan.
Strategic Initiatives Reserve	This reserve will fund strategic initiatives for the future development of the Town in line with the Corporate Business Plan and the Long Term Financial Plan.

Transfers In/Out of Reserves

Externally Restricted Reserves

Transfers to externally restricted reserves will occur as funds are received from external parties for the specific purpose of that reserve fund.

Transfer of funds are restricted to the individual funding agreements. Internally Restricted Reserves

All transfers of funds to internally restricted reserves will be reviewed at least annually as part of the budget process.

All transfers of funds from reserves must be for the agreed purpose(s) for which the reserve was created.

- The transfer of funds will generally be approved as part of the annual budget process.
- In cases where a transfer of funds from a reserve was approved in the budget but subsequently a higher level of funding is required from reserves above
- \$10% or \$10,000 of budget, approved is required from Council prior to the transfer being made.

- Where a transfer of funds is required for purposes unforeseen when the budget was developed, approval is required from Council prior to the transfer being made.

Optimum Balance of Financial Reserves

The Long Term Financial Plan should be considered when determining the amount to be transferred to/from reserves during the annual budget approval process.

Definitions

Financial Reserves: The term includes Asset Revaluation Reserves under Australian Accounting Standards and other reserves as described in this policy.

Asset Revaluation Reserves: Reserves required by the Australian Accounting Standards and are not cash backed reserves.

Internally Restricted Reserves: Reserves established by Council to ensure that sufficient funds are available when required for a specific purpose. These reserves are cash backed.

Externally Restricted Reserves: Reserves that are subject to external restrictions in their purpose. These reserves are cash backed.

Governance References

Statutory Compliance	<i>Local Government Act 1995 – Section 6.11</i> <i>Local Government (Financial Management) Regulations 1996</i>
Organisational Compliance	Corporate Business Plan Asset Management Plans Information Systems Strategic Plan Long Term Financial Plan Annual Budget Policy 1.2.3 - Investment of Funds Policy

Policy Administration

Directorate:		Officer title:
Corporate Services		Executive Manager Corporate Services
Next Review		Review Cycle
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2	24 April 2018	OCM-071-2018
3	7 August 2018	SCM-003-2018